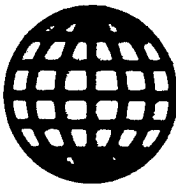
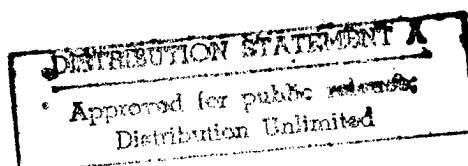


JPRS-CAR-89-109
13 NOVEMBER 1989



**FOREIGN
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GENERAL

Alleged 'CIA Spies' Executed in Iran

OW0611013489 Beijing XINHUA in English
0044 GMT 6 Nov 89

[Text] Tehran, November 5 (XINHUA)—Four people were executed here Saturday on charges of spying for the U.S. Central Intelligence Agency (CIA), Iran's official news agency (IRNA) reported today.

The four, named Touraj Riyahi, Kyanoush Hakimi Bushehri, Ardeshtir Ashraf and Ibrahim Moshtaqi, were put before the firing squad after being tried at a special military court.

IRNA quoted an informed source at the Information Ministry as saying that the executed men had "put valuable intelligence information at the disposal of the CIA during the Gulf war to help Iraq and facilitate terrorist activities in Iran."

No other details were available here so far.

The executions coincided with the 10th anniversary of the seizure of the U.S. Embassy in Tehran by Iranian students in 1979.

Tens of thousands of Iranians took to the street Saturday, demonstrating their resentment to the U.S., "the great Satan" as Iran labelled.

At a rally before the site of the former U.S. Embassy, called as the "den of U.S. spies," a resolution was read, urging for severe punishment of those who worked for the "number one enemy."

Several hundred vehement Iranian students seized the U.S. Embassy in Tehran in 1979 in condemnation of U.S. interference in Iran's internal affairs and took about 60 U.S. citizens as hostages for 444 days.

Also on Saturday, seven "U.S. spies" were shown up before local and foreign newsmen, who confessed to have provided the CIA with military and economic secrets about Iran.

No exact number of the "U.S. agents" arrested by the regime was available.

Analysis of Upcoming U.S.-Soviet Summit Meetings

HK0611115089 Beijing RENMIN RIBAO in Chinese
4 Nov 89 p 3

[Report from Washington by staff reporter Zhang Qixin 1728 0796 2500: "An Important Link in Present U.S.-Soviet Relations"]

[Text] Washington, 2 Nov—Following an announcement made by the United States and the Soviet Union in the latter half of September that President Bush and Chairman Gorbachev would hold an official summit

meeting in the United States at the end of next spring or early summer, on 31 October, the two countries announced again that their leaders will hold an "unofficial" summit meeting from 2 to 3 December. There is no doubt that two summit meetings to be successively held by the United States and the Soviet Union after an interval of about 6 months are a major event in present U.S.-Soviet relations. If we say that the summit meeting to be held next year is a matter within our expectations, then why has the unofficial summit become a focus of people's attention?

According to an official explanation made by the United States, the differences between the two summit meetings are that the official summit meeting to be held next year will mainly cover the five major items in U.S.-Soviet relations, including arms control, regional conflicts, and so on. After making preparations for several months, the two sides hope that they can reach an agreement on certain aspects. But there is no set agenda for the unofficial meeting to be held in December. The two sides will exchange wide-ranging views on the current international situation and the development of U.S.-Soviet relations, so that leaders of the two countries can understand each other's viewpoints.

According to analyses made by persons here, the unofficial summit meeting between the United States and the Soviet Union will be held mainly because of the following two reasons. First, changes have taken place in the international political situation. Over the past few months, changes have taken place in the international situation, and in the situation in Eastern Europe in particular. The Soviet Union has also encountered some problems at home. Both the United States and the Soviet Union have shown concern for each other's attitude toward these problems. Under such circumstances, the two sides wish to know the exact details of the matters through talks. The United States wishes to get "first-hand" information from the Soviet leaders to avoid "losing something in the years of radical changes," or adversely affecting relations between the two countries because of the improper handling of matters. The Soviet Union does not wish the United States to derive certain strategic benefits from the changes, to disrupt the pace of U.S.-Soviet relations, or to affect the process of the reform in the Soviet Union. Therefore, it seems that the meeting is an important link for coordinating U.S.-Soviet relations under special circumstances.

Second, the fact that the Bush administration has recently been readjusting its policy toward the Soviet Union is also an important factor contributing to the U.S.-Soviet summit meeting. Since Bush took office, the U.S. Government has examined and discussed for a long time its foreign policy, and its Soviet policy and the issue of military strategy in particular. It has put forward an idea of "going beyond restraints" and set a long-term objective of establishing more stable relations with the Soviet Union. However, due to divergent views inside the U.S. Government on the reform in the Soviet Union (such divergent views exist even now), in a certain period

of time, the United States has rarely taken any initiative in U.S.-Soviet relations and East-West relations. The overcautious policies of the Bush administration have been criticized both at home and abroad. Under such circumstances, certain changes have taken place in U.S. policy toward the Soviet Union in recent months. The United States has taken primarily a more positive attitude toward reform in the Soviet Union and toward the issue of arms control as well. Regarding the U.S.-Soviet summit meeting, the United States has also changed its attitude toward it. According to reports, after visiting Poland and Hungary last July Bush was at first not anxious to hold the summit meeting. But he now wishes to hold an unofficial summit meeting to exchange views with the Soviet leaders. Although Bush's proposal was responded to by the Soviet side, it was still not completely the same as the idea of the Soviet Union's holding an official summit meeting. After Soviet Foreign Minister Shevardnadze visited the United States last September to talk with Bush and Baker, the two sides made a decision to hold two summit meetings to pave the way for a new round of U.S.-Soviet summit dialogue.

In spite of the fact that the United States and the Soviet Union have set the dates for the summit meetings, people believe that there are still many practical problems that they have not solved. More important is what results will be brought about by the summit meetings.

Asian-Pacific Cooperation Considered Increasingly Likely

40050688A Beijing GUOJI WENTI YANJIU
[INTERNATIONAL STUDIES] in Chinese
No 3, 13 Jul 89 pp 39-43

[Article by Zhang Biqing 1728 4310 3237: "Economic Cooperation and Prospects for the Asian-Pacific Region"]

[Text] The great vitality and potential of the economy in the Asian-Pacific region have provided opportunities and conditions for the development of various forms of regional economic cooperation in this region. The views of different countries in this region are gradually becoming unanimous, and strengthening economic cooperation has become the general trend of the times. A certain form of loose economic cooperation organization may be expected to form in this region by the mid-1990's. Whether or not this goal will be achieved smoothly depends on whether economic superpowers act strictly in accordance with the principles of equality and mutual benefit and respect.

I

In the 1960's, the economy of the Asian-Pacific region began to show its vitality. Since then, the average economic growth rate of this region has always been higher than any other region in the world. The rapid economic development of this region attracted even more attention especially during the 1980's. In the first half of the 1980's, while developed Western countries were at a

standstill due to an economic crisis, the economy of the Asian-Pacific region was still flourishing. During the 1980-86 period, the average annual economic growth rate of the Asian-Pacific region was 5.7 percent, much higher than the 2.4 percent of the United States and the 1.4 percent of West Europe. In 1988, after the economic recovery of the West, the average annual economic growth rate of the Asian-Pacific region was 8 percent, much higher than the average 4 percent of developed countries in the West and the 3 percent of developing countries.

As the economy of the Asian-Pacific region continues to develop, its share in the world economy gradually increases. In the 1960's, Asian-Pacific countries accounted for only 9 percent of the world's GNP. In 1988, it increased to 19 percent. Experts estimate that it is will reach 25 percent by the end of this century. The Asian-Pacific region's share of the export trade has also increased markedly. In 1986, its export volume accounted for 20.6 percent of the total volume of world exports. In 1988, it jumped to 30.8 percent. All this shows that the economy of the Asian-Pacific region has great vitality. International opinion agrees that this region has now become the center of economic growth of the world. The increasingly important position and function of the Asian-Pacific region and its growing momentum have attracted great attention throughout the world.

In addition to a favorable international climate, the great economic achievements of the Asian-Pacific region are tied closely to the favorable factors and great efforts of nations and areas in this region. The Asian-Pacific region covers a wide area and has abundant natural resources. The output or known deposits of many natural resources in this region are among the highest in the world. The Asian-Pacific region has rich manpower resources. While maintaining the advantage of cheap labor, many countries in this region have paid attention to the development of education to improve the quality of labor. Most countries and areas have formulated and implemented economic and scientific and technological strategies that conform to changes in international climate and are better suited to their actual conditions. They have also strived to increase vitality at home, actively sought opportunities abroad, and vigorously developed the export-oriented economy to give impetus to their economic growth. Most countries in this region have continuously improved their investment environment and have tried in all possible ways to absorb foreign capital and advanced technology. While taking advantage of cheap labor to develop labor-intensive industries, they have developed in a planned and step-by-step manner new capital- and technology-intensive industries to increase their international competitiveness and to expand export. These successful economic policies and measures are the motive force and guarantee for economic development.

II

Today's world is an interdependent one in which no country is able to develop its economy rapidly unless it has economic cooperation with other countries, especially more advanced countries. The Asian-Pacific region has some characteristics that are different from other regions. These characteristics have provided some conditions for various countries and areas in this region to exercise economic cooperation. Properly utilizing these characteristics and vigorously practicing economic cooperation are the exact reason why these countries and areas in this region have been able to achieve and continue to maintain a high economic growth rate.

1. There are many countries in the Asian-Pacific region. The fact that they are of different types and different economic development levels has provided possibilities for carrying out economic cooperation among them. Not only are there countries of different social systems in this region, but the economic development levels of countries vary substantially. This region includes two economic superpowers—the United States and Japan—as well as several economic colonies at different levels. For instance, there are the “four little dragons” of Asia, which are generally acknowledged to be a vital and flexible “new industrial and economic colony.” There are ASEAN countries, whose economic power is gradually increasing and whose economic activities are increasingly dynamic. There is also China, which has attracted attention by carrying out economic reform and opening policies and by vigorously engaging in international economic exchanges. These countries and areas of different levels and types have accelerated each other's economic development by practicing various forms of economic cooperation to supply each other's needs and to make up each other's deficiencies. Since the 1980's, the degree of economic interdependence among Asian-Pacific countries has increased markedly. Take trade, for instance. During the 1981-87 period, the degree of interdependence among Asian-Pacific countries (including North America, Australia, and New Zealand) increased 7.5 percent. The situation varied in different countries. Some countries depended on the region for as little as 50 percent of their trade; others for as much as 70 percent. Capital needed by Asian-Pacific countries is raised mostly within this region. The United States and Japan are major suppliers of capital. What is noteworthy in recent years is that some of the “four little dragons” have substantially increased their direct investment in some countries within the region. It looks as though the latecomers may surpass the old-timers. With regard to technological exchanges, not only high-level countries transfer technologies to middle- and low-level countries and areas, but middle-level countries and areas have also begun to vigorously transfer technologies to low-level countries. Despite different levels, every country is trying to raise its own economic level, thus bringing about a situation rarely seen in other regions in which everyone tries to overtake the other in friendly emulation.

2. Most countries in this region have close ties to the United States, which has great economic strength and advanced science and technology. Since the war, the function and influence of the United States has ranked number one as far as economic development of the Asian-Pacific region is concerned. The United States is the biggest export market and the main source of capital and technology in this region. Take the 1980's, for instance. In the first half of this period, the rapid economic growth of Asian-Pacific countries played a decisive role in the sharp increase of exports to the United States. During the 1970-80 period, the proportion of Japanese exports to the United States increased from 25 to 37 percent of the total volume of Japanese exports. During the same period, the exports of the “four little dragons” to the United States also increased from 23 to 32 percent. This means that a third of products exported from these economically active countries and areas were absorbed by the United States. People generally think that the “four little dragons” are the “biggest beneficiaries” of exports to the United States. Between 1981 and 1986, exports to the United States contributed to 42 and 77 percent of economic growth in South Korea and Taiwan, respectively. But the situation has changed in the last 2 years. U.S. trade deficits with Japan and the “four little dragons” remain high and trade friction between them is getting increasingly serious. In order to reduce its own trade deficits, the United States has not only pressured Japan and the “four little dragons” to appreciate their currencies, but has also canceled favorable trade conditions for the “four little dragons” and limited the import of certain products from the ASEAN countries. Since the trade friction between Japan and the United States could not be resolved and Japanese products faced increasing pressure in the U.S. market, Japan, in the second half of 1987, began to modify its economic policy which was overly dependent on the U.S. market. The “four little dragons” and ASEAN countries have also begun to turn their attention to Japan when they look for funds, technology, and markets. Although Asian-Pacific countries have increased the distance between themselves and the United States economically, their relations to the United States are still very close.

The influence and role of Japan, the economic superpower that emerged and developed rapidly after the war, are growing continuously in the economic development of the Asian-Pacific region. Japan has a population of over 100 million. Its GNP is second-highest in the world and its per capita output value leads all developed countries. It has become the biggest creditor and foreign exchange reserve nation in the world. It is an economic superpower in both name and reality. Japan has great influence on the economic progress of the Asian-Pacific region. In recent years Japan has sped up the opening of the domestic market, increased capital and technology exports, and become a strong force behind the economic development of Asian-Pacific countries. The volume of trade between Japan and countries in East Asia has exceeded the volume of trade between Japan and the

United States. Japan has placed the emphasis of economic cooperation on the "four little dragons" and ASEAN countries. Half of its government's financial aid and a fifth of its product exports and private investment are concentrated on the "four little dragons" and ASEAN countries. The international division of labor between Japan and the "four little dragons" has begun to change rapidly from vertical cooperation toward development of horizontal cooperation. In recent years, Japan has attached importance to further developing economic relations with Asian-Pacific countries. Its investment in the Asian-Pacific region has increased substantially. Its capital return plan has also focused on the Asian-Pacific region. Its imports from the region have increased sharply. The ratio of Japanese imports of manufactured goods has increased. The Japanese trade surplus with some countries and areas has been reduced. As the balance between Japanese and U.S. economic strength changes, it is likely that Japan, whose economic force is growing every day, will replace the United States with regard to economic influence and role in the Asian-Pacific region.

III

The great vitality and potential of the economy in the Asian-Pacific region have created opportunities and conditions for carrying out various forms of regional economic cooperation. In view of this, parties concerned, especially economic superpowers, have all tried to exert influence in the progress and direction of economic cooperation in this region. Accelerated by the trend of regionalization and grouping in the world economy, all kinds of suggestions and proposals concerning the form of economic cooperation organization in this region have been brought up. This shows that strengthening economic cooperation is the common need of all countries concerned. It also shows that, because of differences in position and interest, each party has a different purpose in the cooperation.

With regard to strengthening economic cooperation in this region, Japan has the most positive attitude and has come up with most suggestions and proposals. However, Japanese proposals have also undergone many changes. In the 1960's, based on the principle of developing free trade, professor Kiyoshi Kojima brought up the "proposal of Asian-Pacific free trade zone." In the late 1970's, in order to seek the overall security and protection of Japanese economy, Prime Minister Ohira brought up the "proposal of pan-Pacific cooperation." In 1987, Prime Minister Takeshita took office and emphasized the leading role of the Japanese economy. His think tank brought up the proposal of establishing an "East Asian economic circle." Kiyoshi Kojima's proposal was brought up too early and did not attract much attention. Ohira's proposal is more concrete and has exerted some influence. But, because this proposal involves too many areas and problems too complex to be resolved within a short period of time, no marked progress has been made

in this regard. At present, Japan has switched its attention to speeding up promotion of the "East Asian economic circle" that has begun to take shape. The background is as follows: 1) In order to overcome the unfavorable factor of sharp increases in the value of the Japanese yen in recent years, Japan has sped up investment, production changes, and technology transfer to East Asia. As a result, interdependence between Japan and East Asia has increased markedly. 2) The emergence of the North American Free Trade Zone and the further consolidation of economic cooperation in the EEC show that the trend of regional economic grouping has increased. The form of cooperation in the proposed Japanese "circle" is multilevel economic cooperation in a form similar to that of a flying goose. In other words, Japan will be the head of the goose, the "four little dragons" will be the backbone, ASEAN countries and China will be two wings and the tail. At present, in order to prevent East Asian countries from having misgivings and to avoid conflicts with the United States, Japan is not anxious to raise the flag of a "circle." Instead, it claims that it will build East Asia into an "open region" based on maintaining free trade and will form a "loose economic community." The purpose of this act is to firmly establish Japan's leading economic position in the Asian-Pacific region and then use it as a basis to continue to propel implementation of the proposal of pan-Pacific cooperation and to compete with the two regional economic groups of West Europe and North America. Japan's concrete approach is to develop essential economic relations with East Asian countries through three-in-one measures to expand trade, increase financial aid, and expand investment to create an interdependent situation in which "no one can live without the other." In March 1989, inspectors of MITI [Ministry of International Trade and Industry] visited the five ASEAN countries to explore the possibility. In May, Prime Minister Takeshita personally visited ASEAN countries to carry out further work in this regard.

In 1988, some Japanese scholars suggested that they should think big but start with something small like first establishing a small-scale economic organization—"the economic circle of Northeast Asia." This is for the area of Japan facing the Sea of Japan to carry out economic cooperation with the northern and southern areas of Korea, the northeastern area of China, and the far eastern area of Siberia in the Soviet Union. This proposal has a certain market in Japan, but the Japanese Government has not approved or disapproved it.

Judged from the viewpoint of global strategic goals, the United States has different ideas from Japan's. The United States advocates development of economic relations with Asian-Pacific countries through strengthened bilateral or multilateral negotiations. It is not interested in forming an organized economic cooperation system in the Asian-Pacific region. However, since economic regionalization and grouping have gathered such momentum in recent years, plus the fact that Japan's economic force has spread so rapidly in the Asian-Pacific

region, the United States cannot but readjust its plans and arrangements. For this, Schultz suggested establishing the "Pacific Basin forum" when he was the Secretary of State. Baker suggested signing "the Pacific trade treaty" with Japan, South Korea, Taiwan, Australia, and New Zealand when he was the Secretary of the Treasury. Senator Bradley recently proposed establishment of a "pan-Pacific economic alliance." A major characteristic of these proposals is to suggest establishing a loose Asian-Pacific economic cooperation organization based on a coordinating policy. The U.S. objective is to prevent Japan from becoming the leader and from maneuvering to form any Asian-Pacific economic cooperation system that excludes the United States. But U.S. proposals are unlikely to be taken seriously by the parties concerned because they are too ambitious and abstract in content.

With regard to organizing an Asian-Pacific economic community, the "four little dragons" and the ASEAN countries have always been the main targets of Japan and the United States. Due to their past painful lessons of colonial rule, the "four little dragons" and the ASEAN countries have long had many doubts and misgivings about the intentions of Japan and the United States. They do not trust Japan, in particular. Afraid that the practice of the Great Asian Coprosperity Sphere will return, they are negative and indifferent toward various suggestions and proposals of Japan. However their attitude has somewhat changed in recent years. There are two reasons: 1) Japan has changed its past practice of taking care of everything by itself and "withdrawn to second line" to let ASEAN countries take the lead in as many things as possible, thus showing respect and making a good impression on them. 2) In consideration of its previous bad profit-before-everything image, Japan has changed some practices in economic cooperation and enabled other countries to feel that they too can gain something from economic cooperation with Japan. Under this condition, ASEAN countries have shown a certain interest in Japan's proposals, while stressing coordinating each other's stands and maintaining their group interests. Especially since protectionism is emerging in West Europe and North America, some people in ASEAN countries feel that establishing an Asian-Pacific community is, after all, a self-salvation method. Lee Kuan Yew, the prime minister of Singapore, even said that in order to cope with the protectionism of Europe and the United States, it may be helpful to establish a West-Pacific free trade circle centered in Japan. All this has showed that ASEAN countries are no longer obstacles in establishing an Asian-Pacific regional economic organization. Taiwan and South Korea of the "four little dragons" are "bold because they know their financial strength." They think that they can do even more in future regional economic organizations, so they are very positive toward things like establishing regional economic organizations. They have even made some suggestions on their own.

Australia and New Zealand agree unanimously that establishing some form of regional economic organization can bring actual economic benefits to member nations and that they will under no circumstances exclude themselves from a regional economic organization for the sake of their own survival and development. Australia and New Zealand are interested in establishing not only nonofficial economic organizations but also official economic cooperation organizations. In January 1989, the prime minister of Australia proposed establishing a government cooperation organization of the Asian-Pacific region based on the model of an "economic cooperation and development organization." Except for Japan and South Korea, no one responded to this proposal.

After Gorbachev's speech at Vladivostok in July 1986, the Soviet Union, which has always been severely critical of the Asian-Pacific economic cooperation plan, completely changed its attitude and tried vigorously to join relevant Asian-Pacific economic cooperation organizations. In March 1988, the Soviet Union established an "Asian-Pacific economic cooperation committee" within its government. Guided by Gorbachev's new diplomatic ideas, the Soviet Union has sought to improve relations with Asian-Pacific countries. One of the major goals of the new Asian-Pacific policy of the Soviet Union is to seek the capital and technology of Japan and South Korea in order to develop the Far East area of Siberia to strengthen its overall national strength. Although the Soviet Union is a superpower, its economic activities in the Asian-Pacific region are very limited. In the foreseeable future, it will not be able to exert great influence in the progress of Asian-Pacific economic cooperation.

IV

Further strengthening economic cooperation in the Asian-Pacific region has become the trend of the times. Asian-Pacific regional economic cooperation will make new progress in the near future. This can be observed from subjective and objective viewpoints:

Subjectively, the most important is that the viewpoints of Asian-Pacific countries have gradually become unanimous. People have gradually realized that economic regionalization and grouping are a product of the multipolarization process of the world economy. Its formation is conducive to the internationalization of production, exchange, and circulation, which in turn helps member nations develop their economies and increase their productive forces. Besides, the first priority of regional economic organizations is to seek the interests of member nations. No matter how a regional economic organization emphasizes "openness," it cannot avoid different degrees of exclusiveness. It will treat members and nonmembers differently. Whether or not a country is a member has a great bearing on its interests. Facts have proved that regional economic organizations often have a force of coacervation irresistible to surrounding

countries. The Pacific Economic Cooperation Conference (PECC), of which China is a member, is an organization of considerable influence in the Pacific region. Attending are official, nonofficial, and academic personages. Its growing activities are another proof of this point.

Objectively, as U.S.-Soviet relations relax, a fairly long period of detente may have appeared in the Asian-Pacific region. Under this situation, the role of economic factors increases and the development of economic cooperation will not change because of ideology and social system. As far as national security is concerned, the role of economic and scientific and technological development will occupy an increasingly important position. Countries in the Asian-Pacific region will seek to increase their overall national strength through different levels and multifarious forms of economic cooperation.

Another favorable aspect of objective factor is that in the Asian-Pacific region large amounts of natural resources are waiting to be developed and large amounts of inexpensive quality labor is waiting to be utilized. This shows that there is great potential for the economic development of the Asian-Pacific region. Once these positive factors are mobilized, the economic development of this region will be more impressive.

Of course, there are also difficulties in establishing a certain form of regional economic organization in the Asian-Pacific region. For instance, the Asian-Pacific region is a large area with differences in social systems and ideology, and great differences in the levels of economic development, not to mention differences in language, religion, traditions, customs, and nationality. It is by no means an easy task to put all these different things together. Besides, the misgivings of developing countries toward developed countries will not be easily eliminated within a short period of time. These will be the factors delaying establishment of a regional economic organization.

Other unfavorable factors include the contention of Japan and the United States for economic leadership. Japan and the United States have differences on the form of Asian-Pacific economic cooperation organization which cannot be resolved within a short period of time. In order to maintain its leading position in the Asian-Pacific region, the United States will not hesitate to use nonmilitary, including political, diplomatic, and economic, means to contend with Japan. The contention of Japan and the United States over leadership will affect the progress in establishing an Asian-Pacific regional economic organization.

Despite various difficulties, by relying on its powerful economic strength and its close relations with East Asian countries, Japan will continue to push its plan to establish a certain form of economic circle. Because the mutual economic needs of Japan and East Asian countries have become a motive force behind this plan and

because U.S. protectionism has pushed some East Asian countries to the side of Japan, Japan is now in a very advantageous position.

However, due to the limitation of various objective conditions, in the foreseeable future the economic circle formed by Japan will not be able to realize the free flow "without boundary" of commodities, labor, and funds as in the EEC or to gradually eliminate tariffs as in North America's free trade zone. Judged from the current situation and development, the possibility of forming a loose, low-level, integrated economic body led by Japan to further strengthen interdependence in East Asia is growing continuously. The general estimate is that this goal may be realized in the mid 1990's.

People's understanding and viewpoints on strengthening Asian-Pacific regional economic cooperation or even forming some form of loose economic organization have gradually become unanimous. But whether or not this goal can be smoothly achieved depends on whether or not economic superpowers in the region can act in strict accordance with the principle of equality, mutual benefits, and mutual respect. With regard to Japan, which will play a main role in the future economic cooperation undertaking, another problem is waiting to be resolved. That is that people are waiting to see if Japan can really draw on its past lessons and completely abandon the ideas and practices of the "Great Asian Coprosperity Sphere" that were harmful both to itself and others. With regard to the United States, people are concerned about the way in which the United States will play its role as an economic superpower on the coast of Pacific.

SOVIET UNION

Commentary Denounces U.S. Decision on Overseas Arrests

HK1710041589 Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 17 Oct 89 p 6

[Commentary by XINHUA reporter Wu Jin 0702 2516: "Another Exposure of Hegemony in Its True Colors"]

[Text] It was revealed by the U.S. LOS ANGELES TIMES on 13 October that in June the U.S. Department of Justice had authorized the Federal Bureau of Investigation [FBI] to arrest any "suspects" abroad without the approval of the relevant government. Yesterday afternoon a spokesman for the White House and the Department of Justice had to admit this when questioned by a group of reporters.

The spokesman said yesterday: "Before making a final decision, we informed all the relevant departments of the government and held discussions with them."

A law enforcement department of one country has gone so far as to execute its law at will in a foreign country. What category does this problem fall into? The United

States, which flaunts itself as an example of "rule by law," is very clear about the answer.

As a matter of fact, as early as 1980 the U.S. Department of Justice vetoed a similar request by the government and pointed out that this ran counter to international law.

But why is it that this very same department of justice has gone back on its word now? Obviously this has proceeded out of consideration for interfering in other countries' internal affairs to defend its own interests.

Judging from the LOS ANGELES TIMES report and a number of developments in the situation, the "suspects" mentioned by the U.S. Department of Justice refer to people like Noriega, commander of the Panamanian National Defense Forces, who is accused by the United States of engaging in international drug trafficking.

The United States is eager to get rid of this obstinate and unruly general. This is no longer a secret and has become an established policy of the United States. For this reason Washington has imposed an economic blockade and threatened Panama militarily, and has even instigated some military officers to stage coups, but to no avail.

At a press conference yesterday morning, President Bush reiterated that he "did not mind if force was used," as long as Noriega was ousted; but "hesitating to pelt a rat

for fear of smashing the dish beside it," the White House has so far refrained from dispatching troops because this might arouse strong anti-U.S. feelings in Latin American countries. Under such circumstances, a decision was made to authorize kidnappings by special agents of the FBI abroad.

The U.S. Government's brutal interference in Panama's internal affairs, particularly its attempt to legalize its kidnapping activities abroad, seriously ruins the commonly recognized international norms and violates international law.

Today, THE WASHINGTON POST quoted Edward Wise, professor of international law, as saying: "I can see no difference between (carrying out kidnapping) without local (government) approval and dispatching troops across the border, which constitutes an invasion." Democratic Congressman Don Edwards from California expressed his worries by saying that the decision by the U.S. Department of Justice could turn the United States into an "international scoundrel."

The problem does not lie in dealing with one Noriega, but in the fact that the United States can use it to handle anyone it does not like, by just making him a "suspect" for a crime. Have the U.S. authorities not accused some countries of conducting "state terrorism"? We would like to ask what "ism" will it be if this U.S. decision is put into effect?

Biographical Background, Prospects of Jiang Zemin**Shanghai Background**

40050634A Hong Kong KUANG CHIAO CHING
[WIDE ANGLE] in Chinese No 202, 16 Jul 89 pp 10-13

[Article by Jin Di 6855 4564: "Jiang Zemin as Seen by the People of Shanghai"]

[Text] Jiang Zemin Was Not Mentally Prepared To Be Chosen as General Secretary of the CPC Central Committee

Jiang Zemin said that he was not mentally prepared to be chosen as general secretary of the CPC Central Committee by the 4th Plenary Session of the 13th CPC Central Committee and thought that many Chinese people did not expect him to be chosen as general secretary at this time either.

Jiang Zemin Took Part in an Underground Student Movement and Worked for a Foreign Firm, the U.S. Haining Co, in Preliberation China

Although people outside of Shanghai know very little about Jiang Zemin, who recently advanced from secretary of the Shanghai Municipal CPC Committee to general secretary of the CPC Central Committee, his drive in handling specific tasks and his candor certainly made a deep impression on the people of Shanghai.

When students from the department of electrical engineering at Shanghai Jiaotong University asked this veteran alumnus how a graduate from their department was qualified to be mayor of a large city of 10 million people like Shanghai, Jiang Zemin replied that his background (he used the English word "background" here and likes to use English words for emphasis) made him well qualified for the job. He left his hometown of Yangzhou, Jiangsu, in his youth and graduated from the department of electrical engineering at Shanghai Jiaotong University in 1947, joining the CPC while he was in college. He worked in the power plant of the then U.S. Haining Co after graduation and soon was delegated by the CPC to take over control and become director of this factory (now the Shanghai Yimin No 1 Bakery and Confectionery). He later worked for a short time in north China, but returned to Shanghai in the early 1960's to become director of the Shanghai Electrical Engineering Research Institute.

After the Cultural Revolution, Jiang Zemin was again stationed in Shanghai as an accredited member of the Central Committee Shanghai work group. He later became minister of the State Council Ministry of Electronics Industry and a member of the CPC Central Committee, but before long was transferred to the job of mayor of Shanghai and returned to Shanghai again in the spring of 1985. Therefore, he understood Shanghai's history and industrial production, had many old friends and colleagues there, and was even more familiar with

the basic mentality of its people. But since he knew that he did not yet have a systematic knowledge of Shanghai, he took many steps to understand Shanghai better after he became mayor. He took "secret trips in disguise" to food markets to check out nonstaple food supplies and rode on crowded buses to understand people's commuting problems. He visited most industrial bureaus and some well-known colleges, conducted special investigations of dangerous buildings in certain grade schools, and also inspected the construction sites of municipal government facilities, such as the new railway passenger terminal. When the news spread that the new mayor was going everywhere to experience and observe public sentiment, a representative of the people eventually sent him a letter to remind him that he should also visit local neighborhoods.

Jiang Zemin Said That No Mayor Could Completely Solve Shanghai's Longstanding Problems in a Short Time

Jiang Zemin's predecessors worked hard for years to draw up blueprints for Shanghai's future, such as the "Economic Development Strategy," the "Cultural Development Strategy," and the "Overall Urban Plan." Jiang Zemin said that, since Shanghai's development directions were already set, the tasks that had to be accomplished in the immediate future were building the urban infrastructure, increasing exports and importing foreign capital, and speeding up advances in industrial technology. Soon after he took office in particular, Shanghai suffered from a rare disaster of torrential rainstorms, after which the problem of downtown traffic jams added to people's accumulated discontent. He felt deeply that many years of emphasizing industrial production alone while neglecting the urban infrastructure had had disastrous consequences for a city the size of Shanghai. But he said that no mayor could completely solve in a short time problems that had accumulated over many years, just as no one could get fat by eating just one meal. Therefore, he consulted with his colleagues about the Shanghai government's financial resources and they agreed on certain "pragmatic steps" that had to be taken every year to improve the investment climate and the environment. Even though Zhu Rongji [2612 6954 1015] took over the job of mayor of Shanghai in 1988, the spirit of Jiang Zemin's "pragmatism" has continued to be practiced as before. The new railway passenger terminal, a second tunnel under the Huangpujiang River, the first phase of the Pudong Gasworks, and other minor projects were built in Shanghai in recent years. A subway, the Huangpujiang River Bridge, a 200,000-gate remote control phone system, the extension of the Hongqiao International Airport, and a sewage disposal project are now all under construction.

It Began To Be Said Abroad That "Shanghai People Were Shrewd But Not Clever, and Trade With Them Was 90 Percent Talk But Only 10 Percent Action"

Since Shanghai had too many debts for its limited financial resources, Jiang Zemin as the head of its

government was deeply convinced that the only way to vigorously develop Shanghai was to reform, open up to the outside world, and import foreign capital. Shanghai Municipality obtained permission to raise funds directly from the international financial market and also had to attract more direct investment by foreign businessmen. It began to be said abroad for a time that "Shanghai people were shrewd but not clever and trade with them was 90 percent talk but only 10 percent action." After asking the relevant personnel to analyze over 30 examples of this, Jiang Zemin admitted that the people handling these transactions had certainly considered their immediate interests alone and failed because they tried to be too shrewd in a few cases, but that most cases that had not been acted upon were still fair and reasonable. At the same time, he also advised "his friends" to take a little less profit and to allow foreign businessmen to profit more in order to make them more interested in investing. He spoke on the subject as follows: Shanghai has good geographical conditions and a complete range of industries, and our many colleges, universities, and scientific research institutes also provide good intellectual reserves. Shanghai's banking and trade also have long histories. Therefore, as long as our investment climate continues to improve, foreign businessmen will certainly come because of our already announced favorable terms.

Jiang Zemin Filled Up the "Food Baskets" To Reassure the Public

Another of Jiang Zemin's contributions that was highly praised by the people of Shanghai was planning and taking charge of carrying out the "food basket project." Fresh vegetables, meat, eggs, and milk are nonstaple foods that the people of Shanghai demand every day. Since Jiang Zemin and his colleagues thoroughly understood the effect filling up the "food baskets" has on reassuring the public and speeding up economic growth, they worked very hard to accomplish this in recent years. After Zhu Rongji became Shanghai's new mayor in 1988, Jiang Zemin as secretary of the Shanghai Municipal CPC Committee worked in full cooperation with him to help put into effect the "food basket project" that was focused on building nonstaple food production bases in Shanghai's suburbs. The people of Shanghai benefitted from this project in 1988 and can now seldom be heard complaining about worries over food.

Jiang Zemin Dared To Joke About His Name in Public

I remember that soon after the disastrous rainstorms were over, Jiang Zemin joked many times at meetings with various cadres that too much rain had fallen on Shanghai because of his, the mayor's, name, which means "bestowing rivers of water on the people." This joke left the participants laughing every time. Daring to joke about oneself in public is an event that seldom occurs among high-ranking CPC officials. This shows Jiang Zemin's self-confidence, wit, and sense of humor. These traits have often enabled him to give vivid replies to reporters' searching questions and to talk with them in

a relaxed and friendly atmosphere. He usually does not like to read his reports and speeches for fear that it will keep him from voicing his feelings and detract from his vitality. When giving dinners for foreign guests, he usually prefers to talk directly with them in English rather than through an interpreter. He frankly admits that it is sometimes hard to avoid a wrong choice of words when not using notes and says that people may criticize him, but they should not pick at his words.

Jiang Zemin Was Very Unhappy About the Rumor That He Was Li Xiannian's Son-In-Law

Not only is Jiang Zemin very candid, but he also makes no attempt to even conceal his differing views on certain issues in his public statements. At a meeting with cadres, he once cited Shanghai people's good points, such as their being quick-witted, quick-reacting, and intelligent, while criticizing their bad points, such as their being too shrewd and their tendency to consider immediate interests alone while neglecting long-range development. He went to his alma mater, Shanghai Jiaotong University, to hold a "dialogue" with students during the campus upheaval at the end of 1986. In his capacity as a longstanding alumnus, he bluntly pointed out at this meeting the shallowness of today's college students. He was very unhappy about the rumor that he was the son-in-law of a certain leader (Li Xiannian) and stated emphatically at several meetings with cadres that his wife's surname was "Wang" and not "Li." A reporter criticized him indirectly in an essay for dealing only with trivial matters, while neglecting important government policies. The essay also quoted authoritative works copiously and disparaged him by analogy with the past. After he cleared up all the issues mentioned in the essay at a later meeting with several hundred people, he criticized with biting sarcasm the irresponsible and indiscreet style of its "skillful author" who was so "full of statesmanship." The reporter sent a letter of apology to the mayor the same night he heard this criticism, whereupon Jiang Zemin quickly sent him a personal, handwritten reply to placate him.

Jiang Zemin Paid Very Close Attention to His Relations With the Media and Reporters

Jiang Zemin actually paid very close attention to his relations with the media and reporters. He suggested and took charge of nonperiodic exchanges between the Shanghai government and responsible people from all branches of the media in 1986. These exchanges were jointly organized by the municipal party committee and government after he became secretary of the Shanghai Municipal CPC Committee, and are still not held in other large cities. He also cooperated as much as possible in interviews with reporters. He once talked freely for over 2 hours with certain Shanghai reporters from the Chinese press who came to interview him. He not only showed no impatience when noon came, but even asked his secretary to arrange for them to eat lunch with him in the municipal government dining hall, where he ate his usual bowl of noodles with beef gravy, while having the reporters served fried pork chops, fried spinach, dried bean thread soup, and rice.

Jiang Zemin Ordered That Beauty Contests Be Absolutely Stopped

Jiang Zemin made another sensational decision when he was running the Shanghai government in May 1988. That is, he ordered that beauty contests be absolutely stopped and announced that Shanghai would not hold beauty contests during his 5-year term of office. A wave of beauty contests was spreading from south to north across Mainland China at that time. Several units of the Shanghai government were also jointly sponsoring a big beauty contest among Shanghai women. Two different views arose in society after entries began to be received. Some delegates and committee members sponsored motions to stop beauty contests at the annual meetings of the Shanghai Municipal People's Congress and the Shanghai Municipal People's Political Consultative Conference that were held in May 1988. One of the sponsors of the beauty contest, a responsible person from a certain government unit, acted personally and argued strongly on just grounds against stopping the beauty contest. But the decision that Jiang Zemin made after hearing statements from both sides was supported by most people in Shanghai. They thought that Shanghai's existing conflicts and issues in areas such as economics, culture, education, and mentality, made, as Jiang Zemin said, "the conditions not yet ripe" for holding "beauty contests."

When Jiang Zemin asked that his decision to stop beauty contests not be reported in detail in the press, people guessed that it was either to keep from embarrassing the sponsors or to keep the outside world from mistakenly thinking that he was too "hardline." But this is only an outsider's guess.

Jiang Zemin Paid Close Attention To Building His Image

Jiang Zemin certainly paid close attention to his image and hoped that the people of Shanghai would think of him as being open and enlightened. This expectation was probably related to his cultural background, since he came from a family of scholars. His paternal grandfather, Jiang Shixi [3068 4258 3305], was a famous doctor in Yangzhou, an age-old city of Chinese culture, and was proficient in the four gentlemanly accomplishments of music, chess, calligraphy, and painting. The family had collected many works of calligraphy, painting, and literature. Jiang Zemin was nurtured from his youth in a wide range of knowledge and showed an interest in diversity. When invited to take part in social events of a mass character, he would sing a passage of Beijing Opera and was quite an all-round success. He was very pleased when a certain Hong Kong magazine pointed out in an article of introduction after he was chosen as a member of the CPC Central Committee Politburo, that he could play the piano. Gu Yuxiu [7357 5148 3811], a famous professor at the University of Philadelphia in the United States who returned to Shanghai to take part in the celebration of the anniversary of the founding of Jiaotong University in September 1986, presented a poem to Jiang Zemin, who had been his student more than 40 years before. Whereupon Jiang Zemin composed a poem in reply, in which he included the name of the course in operational

calculus that Professor Gu had taught him long ago. Jiang Zemin mastered English and studied German as a second foreign language in college. He also studied Russian in graduate school in the Soviet Union in the 1950's, and learned a little Romanian when he headed a group of specialists in Romania in the early 1970's. His command of foreign languages helped him successfully inspect manufacturing zones in many countries and regions when he was deputy director of the Foreign Trade Commission. He still regrets that he was unable to master Japanese as a means of communication in high school.

Jiang Zemin said "I came up in rank step by step. I took part in the revolution for 23 years at the grassroots level and for 19 years as a leader. My work involved the engineering, electronics, and power industries and the import-export business. It was my practice to learn on the job." Since he admitted that he lacked the overall central work experience for the job of general secretary of the CPC Central Committee, it looks like he will be able to use his principle of "learning on the job."

When presiding over the inauguration ceremony for the new Shanghai railway passenger terminal in 1988, Jiang Zemin imitated the famous line in Tang poet Wang Bo's "Teng-wangge Xu" (Cane King Pavilion Preface) that goes "Sunset clouds fly away with a solitary wild duck; Autumn waters are the same color as the daytime sky," by composing a famous verse to describe Shanghai's situation at that time that went "Troubles and hopes exist together; Opportunities and challenges arise at the same time." He is probably now facing this kind of situation.

Photo Captions

1. p 10. Jiang Zemin said that he was not mentally prepared to be chosen as, and lacked the overall central work experience for the job of, general secretary of the CPC Central Committee.
2. p 11. Deng Xiaoping said that he would certainly not interfere with the work of the recently installed leaders and did not want to keep any of his official titles since he is already 85 years old.
3. p 12. Jiang Zemin said on 1 July 1989 that the decision to conscientiously rectify the ideology and organization of CPC organs was necessary and thought that the quality, not the quantity, of party members should be emphasized.
4. p 13. Photograph of reporters eating lunch with Jiang Zemin at his invitation in the Shanghai municipal government dining hall.

Political Past, Future

40050634B Hong Kong KUANG CHIAO CHING
[WIDE ANGLE] in Chinese No 202, 16 Jul 89 pp 14-17

[Article by Cheng Shi 4453 4258: "The Inside Story and Future of Jiang Zemin's Sudden Rise to Power"]

[Text] Well-informed sources have disclosed that Deng Xiaoping recently said, "I picked Jiang Zemin as general secretary of the CPC Central Committee only after much searching." Deng indicated that Jiang would be the key figure in the third generation of CPC leadership.

Deng Xiaoping finally had Jiang Zemin elected general secretary at the 4th Plenary Session of the 13th CPC Central Committee only after thorough consideration and planning. Although Jiang Zemin was apparently elected general secretary by the 4th Plenary Session of the 13th CPC Central Committee that was held on 23-24 June 1989, Deng Xiaoping had actually already decided to replace Zhao Ziyang with Jiang Zemin, and had called in Li Peng and Yao Yilin to ask them to accept Jiang as the key leader as early as 30 May 1989, before the Beijing massacre in Tiananmen Square on 4 June 1989. Deng Xiaoping's surprise choice of a successor not only knocked many overseas China-watchers for a loop, but also took the more than 40 million CPC members throughout China by surprise and focused the world's attention on the following questions: What kind of person was Jiang Zemin? How could he have been put first in command? What were his prospects? Would the senior CPC leadership be able to unite as one to continue the policy of reform and opening up to the outside world?

Jiang Zemin Is a Technician Who Began as a Grassroots Cadre

Yangzhou, Jiangsu, is a city that has long produced scholars, and Jiang Zemin was born there in July 1926. He was a bright student like many Yangzhou people and passed the entrance exam to the Department of Electrical Engineering at Shanghai's Jiaotong University with flying colors. He played an active role in the student movement while in college, was a key figure in Shanghai's student movement at that time, joined the CPC in April 1946 while studying at Shanghai Jiaotong University, and stayed in Shanghai to work underground after graduating in 1947. After Shanghai was liberated in 1949, he was put in charge of taking over a bakery and became assistant engineer, chief of the engineering section, and director of the power plant at the military-controlled No 1 Army Provisions Plant.

After 1949, Jiang Zemin worked in the Shanghai Yimin No 1 Bakery and Confectionery as assistant engineer, chief of the engineering section, director of the power plant, party branch secretary, and first deputy director. He was transferred later to be first deputy director of the Shanghai Soap Factory, and then chief of the electrical engineering section in the Shanghai No 2 Planning Bureau of the First Ministry of Machine-Building.

Jiang Zemin Studied in the Soviet Union for a Year in 1955

The CPC sent many cadres to study in the Soviet Union in the early 1950's when Sino-Soviet relations were at their peak. Jiang Zemin was also sent to Moscow in 1955 to study at the Stalin Automobile Factory. After he

returned to China in 1956, he worked as deputy director of the power plant, assistant chief electrical engineer, and director of the power plant at the Changchun No 1 Automobile Factory. He later worked as deputy director of the Shanghai Electrical Appliance Research Institute and director and acting party committee secretary of the Wuhan Thermal Engineering Research Institute, both under the First Ministry of Machine-Building. Before the Cultural Revolution, he was promoted to deputy director and then director of the Foreign Affairs Office of the State Council First Ministry of Machine-Building.

Jiang Zemin's experience shows that he is a college graduate who understands English, Russian, and Romanian, and is a specialized technician who rose step by step from a grassroots cadre.

Wang Daohan Was Jiang Zemin's "Patron"

A CPC cadre usually needs both a patron and an opportunity in order to be promoted. Who was Jiang Zemin's patron and what was his opportunity?

Jiang Zemin was also attacked during the Cultural Revolution, was sent down to work in the Intelligence Agency of the First Ministry of Machine-Building, and reappeared only after Zhou Enlai died in January 1976. When Wang Daohan [3076 6670 3211] was vice chairman of the Standing Committee of the State Import and Export Control Commission in 1980, he brought over two cadres from the First Ministry of Machine-Building who were specialized technicians and graduates of Shanghai's Jiaotong University, that is, Zhou Jiannan [0719 1696 0589] and Jiang Zemin. Wang Daohan was appointed mayor of Shanghai in the last half of 1980. Just before he left the State Import and Export Control Commission, he strongly recommended Zhou Jiannan and Jiang Zemin to the Central Committee. Whereupon Zhou Jiannan replaced Wang Daohan as vice chairman of the standing committee of the State Import and Export Control Commission and Jiang Zemin, who was still a bureau-level cadre, was also promoted to the vice ministerial position of vice minister of the State Import and Export Control Commission. When the policy of reform and opening up to the outside world was put into effect, Jiang Zemin also became both deputy director and secretary general of the State Foreign Investment Control Commission. Then he became first vice minister and deputy party secretary of the State Council Ministry of Electronics Industry in May 1982.

Jiang Zemin Became a Central Committee Member in 1982

Jiang Zemin was elected a member of the 12th CPC Central Committee in September 1982 and was promoted to minister and party secretary of the State Council Ministry of Electronics Industry in June 1983.

Jiang Zemin was promoted with the direct guidance and support of Wang Daohan, who recommended him for mayor of Shanghai when he left that office in 1985. In addition to Wang Daohan, senior CPC statesman Chen

Yun also played an important role in Jiang Zemin's rise to power. A 1983 story in RENMIN RIBAO disclosed that, since Chen Yun took a special interest in modern industrial developments, Jiang Zemin once took a mini-computer to his home and demonstrated it for him while giving a report. Chen Yun naturally views Jiang Zemin, who understands technology, in a more favorable light since they both come from Jiangsu Province. Since Chen Yun still holds a decisive position in high-level CPC policymaking, it cannot be said that Jiang Zemin's sudden rise to power is completely unrelated to Chen Yun.

Jiang Zemin Was Well-Received When He Arrived in Shanghai

Shanghai is China's biggest city and plays a very important role in China's national economy. Jiang Zemin became deputy secretary of the Shanghai Municipal CPC Committee in June, and mayor of Shanghai in July 1985.

Shanghai was experiencing many problems in 1985, the most serious being a fresh produce supply shortage and public traffic jams, about which people had many complaints. Jiang Zemin arrived in Shanghai to take office on 11 June 1985. He went in disguise on an inspection tour of produce markets to check up on supplies early the next morning. The day after, he rode on crowded buses with the common people to gain an understanding of their commuting problems and experience and to observe public feeling. He had pretty good relations with reporters, his activities were vigorously publicized in the news media, and he appeared in the newspapers quite often. Shanghai's growth in all areas was inseparable from the hard work that Jiang Zemin put in to carry out the central government's policy of reform and opening up to the outside world. He was promoted to membership in the CPC Central Committee Politburo and secretary of the Shanghai Municipal CPC Committee in November 1987.

There has also been quite a bit of veiled criticism of Jiang Zemin's work in Shanghai by people who think that Shanghai has grown too slowly in recent years. Official CPC propaganda organs have also made many criticisms of Shanghai's economic and social problems. It is understood that the people of Shanghai think that Zhu Rongji, who took over as mayor in April 1988, is bolder and more decisive than Jiang Zemin, and that many of Shanghai's problems have been somewhat alleviated only since Zhu Rongji became mayor.

Jiang Zemin Is a Firm Political Opponent of Bourgeois Liberalization

Jiang Zemin holds the same political and ideological views as the CPC Central Committee. Since he firmly opposed bourgeois liberalization during his tenure of office in Shanghai and took a hardline stand against both the student strike in 1986 and the student movement that broke out in April 1989, he enjoys Deng Xiaoping's trust and respect.

Shanghai was going to hold its first beauty contest since liberation in early 1988 and preparations were proceeding in all areas to the intense sound of drums and gongs. But when the beauty contest was about to begin, Jiang Zemin ordered that it be stopped and announced that beauty contests would be prohibited during his tenure as secretary of the Shanghai Municipal CPC Committee.

Jiang Zemin's single-handed hardline treatment of the SHIJIE JINGJI DAOBAO [WORLD ECONOMIC HERALD] incident also stirred up people both in China and abroad. After Hu Yaobang, the former general secretary of the CPC Central Committee, died on 15 April 1989, the mourning of his death by students in Beijing grew into a student movement and the Shanghai SHIJIE JINGJI DAOBAO ran a series of articles commemorating him. Since Jiang Zemin thought that some of these articles were inappropriate, he announced on behalf of the municipal party committee at a mass meeting with cadres in Shanghai on 25 April 1989 the suspension of Qin Benli [2953 2609 4539], its editor in chief, and sent a work team to take over the newspaper. This aroused strong resentment for a time both in China and abroad. Students and some people in press circles in both Beijing and Shanghai opposed this decision by the Shanghai Municipal CPC Committee with rallies and demonstrations, and certain people in Beijing press circles also expressed their support for Qin Benli with a signature drive. College students in the student movement also shouted slogans demanding that Jiang Zemin step down. After the bloody suppression of the Beijing student movement on 4 June 1989, Jiang Zemin was also the first leader from any province, municipality, or autonomous region to step forward and declare his support for the Central Committee's decision to put an end to the "disturbance." Jiang Zemin did all of this as Deng Xiaoping's henchman.

Jiang Zemin Took Three Trips to Hong Kong and Advocated Learning From Guangdong's Reform Experience

People in the know say that a very important criterion in Deng Xiaoping's decision to give a new look to the CPC leadership was to emphasize reform and opening up to the outside world. Jiang Zemin basically met Deng Xiaoping's criterion. He not only held the same political and ideological views as Deng, but, since he had also been in charge of the economic work of the State Import and Export and the Foreign Investment control commissions and had run China's biggest city for many years, he was quite familiar with economic work. Therefore, Deng thought that making Jiang general secretary of the CPC Central Committee would contribute to continuing the policy of reform and opening up to the outside world.

Since Jiang Zemin had taken three trips to Hong Kong, in 1965, 1980, and 1983, he understood Hong Kong's situation better than many of the major incumbent CPC leaders.

Jiang Zemin led a group of the major responsible cadres from Shanghai's bureaus, committees, and offices to learn from Guangdong's experience in January 1988. When talking about invigorating Shanghai's economy, he issued many calls to study Guangdong's reform experiences to speed up development of Shanghai's export-oriented economy. These facts show that Jiang Zemin is an energetic advocate of the policy of reform and opening up to the outside world.

Deng Xiaoping did not pick one of the members of the Standing Committee of the CPC Central Committee Politburo, such as Li Peng, Qiao Shi, or Yao Yilin, as his new general secretary not only because it would not have given the CPC leadership a new look, but also perhaps for other reasons.

Jiang Zemin Has a More Intelligent and Moderate Image

China must consider its international image if it intends to continue the policy of reform and opening up to the outside world. From a short-range perspective, the highest CPC authorities did not hesitate to shed blood in order to suppress the student movement and protect their communist regime. But from a long-range perspective, China must still consider the international consequences of its bloody suppression of a peaceful democracy movement and pay attention to the international image of its new leaders. It is not known if Deng Xiaoping considered the issue of the poor images of people, such as Li Peng and Qiao Shi, in suppressing the student movement. But it is certainly a fact that Jiang Zemin used a more intelligent and moderate approach and method by sending workers' pickets to promptly suppress the student movement.

Although the situation in Shanghai during the student movement was as tense as that in Beijing, Jiang Zemin, as head of the Shanghai Municipal CPC Committee, used a different method to deal with it from that used in Beijing. He did not try to intensify the conflict or use armed troops to suppress the students, but instead mobilized the masses of cadres and organized workers' pickets to deal with the students and preserve order. Therefore, there were no major clashes or as much bloodshed in Shanghai. Making as key CPC Central Committee leaders Jiang Zemin and Li Ruihuan and Song Ping, two other Politburo members with moderate images and economic work experience, will certainly increase the unity and expand the horizons of the CPC and contribute to improving the image of China's leadership and continuing the policy of reform and opening up to the outside world.

Whether Jiang Zemin Is Li Xiannian's Son-in-Law Is Irrelevant

When Deng Xiaoping picked Jiang Zemin to be general secretary, he also considered whether Jiang would be accepted by the various political factions. There is no question that Jiang Zemin holds the same political and ideological views as Deng and will obey him. His many

years of association with Chen Yun was very good for his image, and Chen Yun's older generation of revolutionaries also approved of Jiang's promotion. Moreover, it is understood that Jiang Zemin and Li Peng had harmonious relations when they were colleagues in September 1984, when Li was head and Jiang deputy head of the State Council Electronics Industry Invigoration Leading Group. Li Peng now has to accept Jiang Zemin as foreman and work under him.

Is Jiang Zemin Li Xiannian's Son-in-Law?

It was rumored in much of the foreign and Taiwan media recently that Jiang Zemin is the son-in-law of Li Xiannian, the former president of the PRC and the current chairman of the CPPCC [Chinese People's Political Consultative Conference], and it was said that this petticoat influence was one of the reasons why he was promoted. In fact, much investigation has certainly not confirmed that Jiang Zemin is Li Xiannian's son-in-law. Even if it were found to be true, it would be irrelevant since it could only have been the various factors listed in the above analysis that played a decisive role in his promotion.

Since "a new official often takes stricter steps," Jiang Zemin pointed out in a speech at a plenary session of the Central Committee after he was picked to be general secretary that he would work hard to accomplish the four major tasks put forward by the 4th Plenary Session of the 13th CPC Central Committee and would give special emphasis to the following needs: 1) To thoroughly end the disturbance, suppress the counterrevolutionary rebellion, and restore order throughout China; 2) To persist in reform and opening up to the outside world, and steadily develop the economy. These can be regarded as the "two stricter steps" of his incumbency.

Jiang Zemin Raised Two Basic Issues That Must Be Settled

It is understood that after Jiang Zemin was picked as general secretary, he raised the following two issues that he thought were basic and needed to be settled: 1) What lessons could be learned from the way in which this disturbance grew and spread? 2) How could the political, ideological, economic, and educational roots of this disturbance be eradicated?

Many people expressed doubts about Jiang Zemin's qualifications for the job of general secretary of the CPC Central Committee, and even more people thought that Deng Xiaoping had no alternative but to use Jiang Zemin and that it was only an interim measure. Thus, questions have arisen as to how long Jiang Zemin will be able to keep his position as general secretary.

How Long Will Jiang Zemin Be Able to Keep His Position as General Secretary of the CPC Central Committee?

I think that Jiang Zemin's future as general secretary will depend on the following three factors:

1. The key factor in Jiang Zemin's future as general secretary will be the economy. Although the CPC has achieved obvious successes in a decade of economic reform and opening up to the outside world, it is now facing many economic problems and crises, mainly inflation and corruption. Since Deng Xiaoping saw this clearly, he pointed out the following things to the new Standing Committee of the CPC Central Committee Politburo: Special attention must be paid to keeping the economy from slipping. The key at present will be to make economic breakthroughs that will satisfy the people. The new leaders must take practical steps to win the confidence of the people and show them how things stand. Otherwise, they will take to the streets today and tomorrow, and it will be impossible to guarantee even a few months of calm. Deng Xiaoping's words hit home. If the economy is not run well, Jiang Zemin will certainly not last long as general secretary.

2. Jiang Zemin's future as general secretary will depend on Politburo unity. Jiang Zemin is the least qualified of those who have served as chairman and general secretary of the CPC Central Committee. He has less experience and fewer official career achievements than his predecessors and his prestige is not credible. The senior CPC leadership has always emphasized theoretical qualifications and seniority. In addition, there is a long and "glorious history" of power struggles within the CPC. There are still doubts as to whether the other members of the Politburo will accept Jiang Zemin, who helicoptered his way to general secretary without being a member of the Politburo Standing Committee. Since Deng Xiaoping clearly saw the seriousness of this problem, he warned the new leadership that they must accept Jiang and not form cliques. But it is another matter whether this can be accomplished in actual fact.

3. Jiang Zemin's future as general secretary will depend on whether rule by old men can be ended. The CPC has long adhered to the line of rule by man instead of rule by law. It was Deng Xiaoping who controlled the ultimate destinies of general secretaries Hu Yaobang and Zhao Ziyang and finally made them step down because they made certain mistakes.

Deng Xiaoping, Chen Yun, and Li Xiannian still hold the most real power in the CPC. Reliable sources have disclosed that Deng Xiaoping still lets Yang Shangkun and Wan Li attend meetings of the Politburo Standing Committee as nonvoting delegates. It is very out of the ordinary that Yang Shangkun gets his picture taken in the middle of the six members of the Politburo Standing Committee.

Deng Xiaoping has indulged in much wishful thinking that he was determined to retire once the prestige of the new leadership was established. But he was actually either unwilling or unable to let go of power and the old men still place themselves above the new leadership. When there are problems, the old men do not accept the blame and the general secretaries have to step down. History has proved that if rule by old men is not ended,

Jiang Zemin will not have much of a future as general secretary of the CPC Central Committee.

Photo Captions

1. p 14. Deng Xiaoping picked Jiang Zemin for general secretary of the CPC Central Committee because he thought that Jiang had achieved official career successes and would wholeheartedly carry out the policy of reform and opening up to the outside world.

2. p 15. Wang Daohan can be said to be Jiang Zemin's patron.

3. p 16. Jiang Zemin's wife is Wang Yiping [3769 1571 0988], who worked in the State Council First Ministry of Machine-Building in her youth and is certainly not Li Xiannian's daughter. Her father ran a handicrafts workshop in Shanghai in his youth.

4. p 17. When British Prime Minister Thatcher and her husband visited Shanghai in September 1982, then mayor of Shanghai Wang Daohan and party met them at the airport.

Jiaotong Underground Student Movement

40050634C Hong Kong KUANG CHIAO CHING
[WIDE ANGLE] in Chinese No 202, 16 Jul 89 pp 74-77

Article by Wu Yisheng 0124 5030 3932: "Jiang Zemin and the Underground Student Movement at Shanghai Jiaotong University"]

[Text] Zhou Enlai Directed the Shanghai Underground Party and Wu Xueqian Was in Charge of the Shanghai Underground Student Committee

The CPC Chongqing office led by Zhou Enlai was moved to Nanjing and the CPC Shanghai office was set up at 107 Sinan Road in Shanghai in May 1946. These offices were called the "Zhou Mansions" overseas, and Zhou Enlai directed the day-to-day activities of the CPC Shanghai underground party from them.

The CPC Shanghai bureau was established in 1946, and the CPC Shanghai Municipal Party Committee, with Zhang Chengzong [1728 2110 1350] as secretary, Ma Chungu [7456 4783 0657] as deputy secretary, and Wu Xueqian, and others as committee members, was set up in the last half of 1947.

Jiang Zemin took part in the CPC underground student movement and joined the CPC at that time while studying at Shanghai Jiaotong University.

Jiang Zemin Helped Launch the Student Aid Movement

Shanghai students launched the Student Aid Movement in January 1946 to help over 10,000 young people continue their studies. They set up the Shanghai Municipal Student Union Preparatory Committee with the help of student rallies and the mass Student Aid Movement. Not only had student tuition shot up because of the KMT [Kuomintang] government's increased military expenditures and skyrocketing prices, but teacher

salaries had also decreased because education funds had been cut. Over 20,000 Shanghai high school and college students staged the Teacher Respect Fund-Raising Movement in May and June of 1946, which called for "ending the civil war, decreasing military expenditures, increasing education funds, and raising teacher salaries" and strengthened the unity of students and teachers. This helped over 150 Shanghai college and high school student groups to set up the Shanghai Municipal Student Fight for Peace Federation and to gradually link up with the workers' movement.

Wu Xueqian, who is now a member of the CPC Central Committee Politburo, vice premier of the State Council, deputy head of the CPC Central Committee Central Foreign Affairs Group, and in charge of dealing with matters concerning Taiwan, was in charge of the CPC Underground Student Committee at that time. Jiang Zemin, who was then a student at Shanghai Jiaotong University and is now general secretary of the CPC Central Committee, also played an active role in the CPC student movement at that time.

Wu Xueqian Analyzed the Two Stages of the Student Movement

Wu Xueqian broke down the Shanghai student movement from 1946 to 1949 into two stages. He spoke as follows: "The Shanghai student movement on the eve of liberation can be broken down into the two stages of before and after the arrival of the PLA [People's Liberation Army]. Before the arrival of the PLA, although the KMT authorities in Shanghai had imposed martial law and fascist rule, the Nanjing government was still taking phony peace steps to gain breathing space and was forced to temporarily stop its naked, bloody suppression of the mass movement in Shanghai. Moreover, since the KMT-controlled school authorities could see that Chiang Kai-shek's regime was about to collapse completely, most of them were thinking about their futures and were no longer dead set on dying shamefully for the KMT or becoming murderers by suppressing the student movement. Thus, we took advantage of the various contradictions among the enemy to launch an open and legal mass movement, expand our corps of activists, develop CPC organizations, and prepare for the final decisive battle to liberate Shanghai. After the arrival of the PLA, the KMT authorities who were on the verge of extinction, launched a fierce offensive against the students in all Shanghai schools at the end of April 1949. The Shanghai student movement was most hard-pressed during the following month. But since the CPC organizations in all the schools relied closely on holding their ground and persisting in the struggle with the support of the masses, they finally crushed the KMT offensive, preserved their forces, and were there to welcome the liberators of Shanghai."

The massive and far-reaching student movement at Shanghai's Jiaotong University, where Jiang Zemin was

a student in the late 1940's, was led by the CPC underground party organization and was called a "stronghold of democracy" for a time.

When Chen Lifu [7115 4539 1133] gave up his job as KMT Minister of Education in 1948, Wu Baofeng [0702 0202 0023] also stepped down as president of Shanghai's Jiaotong University. Zhu Jiahua [2612 1367 7520], who succeeded Chen Lifu as Minister of Education, saw how things stood, was unable for a time to find a suitable figure from his faction to take over the job of president of Jiaotong University, and had to look for an interim president who had a fair amount of seniority and prestige in the field of engineering technology and belonged to no political faction. Thus, he settled on Cheng Xiaogang [4453 1321 0474].

Cheng Xiaogang had returned to China after graduating from MIT, a famous university in the United States, and worked for a long time in various major railway and rolling-stock plants. When Cai Yuanpei [5591 0337 1014] held the concurrent posts of head of the KMT College Office and president of Jiaotong University, Cheng Xiaogang served for a time as acting president in his capacity as secretary general of Jiaotong University. He also served concurrently in 1948 as technical supervisor of the KMT government Ministry of Communications and head of the National Mechanical Engineering Institute.

Cheng Xiaogang Set Up a Campus Front After He Was Finally Talked Into Becoming President of Jiaotong University

Since Cheng Xiaogang was honest and frank, Zhu Jiahua thought that he was well-qualified to become president of Jiaotong University and would be above criticism in all areas. Even though Cheng's character was out of keeping with the times, Zhu thought that he would not betray his charge by practicing nepotism or choosing the wrong people to help him if any disorder arose. Therefore, Zhu talked it over with Ling Hongxun [0407 7703 8113], the Vice Minister of Communications, and asked Ling to talk Cheng Xiaogang into taking the job of president of Jiaotong University. Ling had worked at Jiaotong University, was an important figure in the Jiaotong University Alumni Association, and had been president of Jiaotong University and head of the National Engineering Institute. Ling talked it over with Cheng Xiaogang, who thought that Jiaotong University was full of spies and secret agents, "was a hellhole" into which it would be useless for him to jump, and absolutely refused the job. Later, after much talk, mediation, and persuasion, he finally agreed to undertake the difficult job as best he could.

Cheng Xiaogang agreed to become president of Jiaotong University only after he told Zhu Jiahua that he would run the school according to the administrative principle of "academic freedom of thought." He later said "I told Zhu Jiahua to his face that if armed troops or police came to the school and caused trouble, I would roll up

my bedding and follow on their heels when they left, to which he laughingly agreed."

Cheng Xiaogang often said, "There is no famous college in the world that does not practice freedom of thought." Cheng's proposing and persisting in enforcing the principle of academic freedom made Wu Guozhen [0702 0948 2823], Xuan Tiewu [1357 6993 0710], Fang Zhi [2455 3112], and their like think twice before suppressing students at Jiaotong University. Many students at Jiaotong University also endorsed the principle of academic freedom and thought that "striving for further progress through stability" and "vigorously developing an academic atmosphere of freedom and democracy within the school, while rigorously maintaining complete academic independence from outside influence," were right on. (See the 1949 Jiaotong University Yearbook for Class No 38.)

"Jiaotong University Students Were Spending All Their Time Dancing and Singing About Liberation"

Wu Guozhen once asked Cheng Xiaogang "if he knew that Jiaotong University students were spending all their time dancing and singing about liberation just as if they were in a communist concession." Cheng Xiaogang replied "I know all about it, but I don't see that it conflicts with my administrative principle of academic freedom that was agreed to by the Ministry of Education." Whereupon Wu said, "A college president must not take a too laissez-faire attitude toward students, or they might get off the track. Didn't Confucius say 'Teach politics and keep order with punishment'? Otherwise, how could order be kept?" Cheng replied "Mr Mayor, don't you remember that Confucius also said 'Teach morality and keep order with courtesy'?" Wu Guozhen could not refute this and their dialogue was passed along by word of mouth with general approval in society at that time, was reported in THE NEW YORK TIMES, and was prevalent everywhere for a time.

Cheng Xiaogang was later pressured by outside forces and finally forced to resign.

Although the student movement at Jiaotong University was launched mainly by influential and strong underground CPC leaders, such as Wu Xueqian and Jiang Zemin, the administrative principle of "academic freedom of thought" that was put into effect by Cheng Xiaogang when he was president also played a certain objective, supporting role in its success.

A Publicity Campaign of Song and Dance

After it was established that Jiaotong University was a stronghold of democracy, frequent progressive publicity campaigns of all kinds began to be launched. A grand evening of entertainment was held in the summer of 1948, at which the major event was new songs sung by the famous soprano Yu Yixuan [0827 1355 5503]. The news that this social was going to be held caused a

sensation in all colleges and high schools throughout Shanghai as well as in the neighborhood of Jiaotong University.

That night, the gates of Jiaotong University were thrown wide open for free access, and the spacious lawn in front of the Great Hall looked like a flannel blanket spread across a fiery pit with the host's arms stretched out in enthusiastic welcome to all progressive forces. Huge "nine-headed birds" (loudspeakers) that were rarely seen at that time were installed on the roofs of the gym and the Great Hall. The members of the student union who were in charge of the social set up in the gym and opened the doors and windows.

It was the student union that decided to arrange for Yu Yixuan to sing and to invite Dr Zhou Ming [0719 6900], a founding member and dean of studies of Jiaotong University, to preside over the social in order to enhance its impact. Zhou Ming gladly consented and enabled the whole event to come off without a hitch.

After the curtain rose, one number followed another, with dances, victory dances, songs, recitations, and choruses. The program was varied and interesting, fresh and powerful, full of lofty militant sentiments, and like being in a CPC liberated area. The audience was both inside and outside, thousands of hearts stirred in unison, and groups were here and there on the lawn with almost no empty spaces.

The first song that Yu Yixuan sang that evening, *Paoma Liuliu Di Shanshang (Kangding Love Song)*, was a folk-song that was not yet popular at that time. Her voice carried the words clearly and joyfully to the skies over Xujiahui in Shanghai and the audience listened with bated breath. Many students from Jiaotong University and beyond learned the song the next day and it became very popular. Her second song was *Laotianye, Ni Buhui Zuotian (You Old Gods Cannot Create a Paradise)*, which reproached the KMT regime by innuendo and, even though it was hard to hear outside, Yu Yixuan's exceptionally powerful voice sang it with stirring sadness and righteous indignation. People in the audience said that "it was like a clap of thunder."

Jiaotong University Students Went on Hunger Strike To Protest Their Inadequate Food Allowances

Although inflation was running rampant during the last days of KMT rule on Mainland China, the food allowances of Jiaotong University students had not been raised for a long time and were becoming increasingly inadequate. The Ministry of Education had procrastinated and refused all the repeated pleas for help. The students felt driven beyond the limits of their patience and assembled for a sit-in and hunger strike early one morning on the spacious lawn in front of the Great Hall as a strong protest against their inadequate food allowances. At the same time, the student union was going to send a telegram to the Ministry of Education to explain their situation and request immediate help. Professor Zhou Ming, the dean of studies, could not stand seeing

the students on hunger strike. So he rushed around everywhere to persuade them to send the telegram of protest but to continue to eat, since the KMT government in Nanjing would not help them even if they went on hunger strike.

The students gave the telegram of protest to Cai Ze [5591 3419], the head of general affairs at Jiaotong University, for consideration and revision. Cai Ze suggested that they make the telegram of protest more emphatic and persist in the hunger strike. He added a few sentences to it, his main points being that the students were on the verge of starvation, could be duped no longer, were forced to go on hunger strike and await their fate, and were pleading for immediate help. Cai Ze also said that, while students fasting for a couple of meals would certainly not create a major problem, its buildup in the media could not be ignored for long by either the Ministry of Education or the rest of the KMT government. Dean of Studies Zhou Ming agreed with this and Cai Ze joined the student hunger strike on the lawn.

Jiaotong University Students Held an Exhibition Caricaturing the United States and the KMT

Students at Jiaotong University held a large public exhibition in 1948 to caricature the United States, and China's ruling families of Chiang, Song, Kong, and Chen. The exhibition was mounted on 1-square-meter pieces of cardboard, hung on wire tied between trees surrounding the lawns of the Jiaotong University campus, and was altogether 300-400 meters long.

The exhibition was varied and colorful and portrayed with top artistry many remarkably true-to-life and witty caricatures of Chiang Kaishek's U.S. government-backed civil war and the trickery and extortion of excessive taxes by China's four ruling families. It filled many of the spectators with righteous indignation while convulsing them with laughter.

Jiaotong University President Cheng Xiaogang Was Persuaded To Take Part in the Demonstrations

The KMT finally sent troops to Jiaotong University, and soldiers and police came to suppress the students one morning at 0700 after a demonstration. Jiaotong University's main, rear, and side entrances were all surrounded and sealed off by soldiers, police, and KMT spies. Although the college was surrounded by small tanks, armored trucks and cars, and motorcycles with sidecars, bayoneted rifles, handcuffs, and shackles were brandished everywhere, and a momentum of violence had built up as if a formidable foe was approaching, Jiaotong University students certainly did not give up. Instead, they formed into ranks, marched back and forth across the campus, shouted slogans, and continued their huge

demonstration. When the march passed the administration building where President Cheng Xiaogang was standing, someone said, "Let's ask the president to march with us!" When the students shouted "Come march with us, Mr President!," Cheng Xiaogang readily joined their ranks, shouting slogans and singing songs with them. Everyone was exhilarated, their angry cries resounded to the skies, and the militancy of a stronghold of democracy was displayed.

During the campus demonstration, the students also sent some of their number to the main and rear entrances to stand on the stairs next to the walls and shout propaganda at the troops and police to publicize their slogans and principles.

A huge PLA army arrived in Shanghai in April 1949. The situation worsened on the eve of the KMT retreat and the KMT troops and police carried out a mass arrest of Jiaotong University students on the evening of 25 April 1949. They again "ordered all teachers, students, staff, and workers throughout the college to leave within 3 days" on 27 April 1949.

Under this pressure, some of the 3,000-4,000 teachers, students, staff, workers, and their families from Jiaotong University roamed the streets, some took up temporary residence beneath overhead building projections spanning lanes, and others squeezed into small borrowed rooms in groups of three or four families. When the PLA began to move from the western suburbs into the city proper and liberated the Xujiahui district on 25 May 1949, Jiaotong University teachers, students, staff, and workers rushed to take back their campus and launch a new movement, and Jiaotong University alumnus Jiang Zemin was ordered to take over a bakery.

Photo Captions [photos not published]

1. p 74. Students at Shanghai Jiaotong University launched a campus guard movement and presented a collective petition to the KMT authorities in Nanjing on 13 May 1947 with the support of CPC leaders, such as Wu Xueqian and Jiang Zemin. Pictured are student brigades preparing to board trains to go the KMT government capital in Nanjing to present the petition.
2. p 75. Jiang Zemin worked in the underground student movement at Shanghai Jiaotong University in 1946 when Zhu Jiahua was the KMT minister of education.
3. p 75. Jiaotong University students overcame the obstruction of KMT army spies and hung the slogan "Long Live Jiaotong University" on the train they rode to Nanjing to present their petition.
4. p 76. Photograph of safe-conduct issued by PLA General Feng Zhi [7685 2535] when the 27th Army entered and garrisoned Shanghai on 27 May 1949. Jiang Zemin, who had worked underground in Shanghai, was later ordered to take over a factory.

NATIONAL AFFAIRS, POLICY

Policy Changes Advocated To Combat Inflation

40060666A Hong Kong JINGJI DAOBAO
[ECONOMIC REPORTER] in Chinese
No 26, 3 Jul 89 pp 27-29

[Article by Wang Guangqian 3769 1639 6197: "The Fundamental Way to Harness China's Inflation: Policy Readjustment and Continued Reform"]

[Text]The factors contributing to China's current inflation are extremely complex. Inflation reflects in an overall way the readjustment of various relationships, and changes in contradictions during a period of social change. It is not an inevitable consequence of reform, nor is it an inevitable consequence of the system of public ownership.

Policy readjustment and continued deepening of reform is the fundamental way to harness inflation as follows: "Double tightening" of government financing and credit has to be linked to industrial policy, with tremendous rise in interest rates, and unitary financial and job authority in reform of the investment system.

Just What Are the Factors Contributing to the Current Inflation?

China's current inflation has lasted longer, and the inflation rate is higher than any inflation since the founding of the People's Republic. Not only does this inflation threaten reform and development, but it also has an impact on daily life. What caused this situation? Views vary widely among theoreticians. One point of view holds that the current inflation was created by reform itself in that reform scattered the central government's financial resources, damaged the centralized authority of the central government, delegated too much authority to enterprises, and gave enterprises too much authority. This point of view holds that the way to solve inflation is to recoup the authority and financial resources given to enterprises, meaning a gradual restoration of the old order. Such a point of view holds that the current inflation is created by the system of public ownership per se in that the system of public ownership actually obscures production authority relationships; no one is in charge, and enterprises lack a self-limiting mechanism. Thus, the solution lies in changing the public ownership system, instituting a private ownership system.

We do not agree with the foregoing point of view or stand. We believe that the reasons for China's current inflation are extremely complex. There are economic reasons, as well as political, social, and cultural reasons. Inflation is an overall reflection of the readjustment of various relationships and changes in contradictions during a period of social change. It is not an inevitable consequence of reform, but rather results from certain specific policy mistakes made in the process of moving ahead with reform. Nor is it an inevitable consequence of the public ownership system, but rather is caused by

inappropriate operating and management methods under the system of public ownership.

Let us first analyze the direct reasons for the current inflation.

In terms of the rise in the price index, China's current inflation began in 1985. Taking the combined social retail price index as representative, inflation was 8.8 percent in 1985, 6.0 percent in 1986, 7.3 percent in 1987, and 18.5 percent in 1988. If analyzed in terms of the reasons for inflation, the present inflation began in 1983.

First let us look at currency issuance. The years 1981 and 1982 were years in which the economic indicators were fairly ideal for the first time since the beginning of reform in China. Economic growth and the issuance of currency proceeded at substantially the same pace, and government deficits declined markedly. However, beginning in 1983, the issuance of currency increased abruptly. During the 6-year period from 1983 through 1988, the issuance of specie increased 169.5 billion yuan, the volume of market circulation rising from 43.9 billion yuan to 213.4 billion yuan in a 4.8-fold increase from the end of 1982, or an annual 30.6 percent increase, which was more than double the economic growth. Currency in the broad sense (cash plus all forms of savings) increased 629.1 billion yuan, the aggregate amount climbing from 280.5 billion yuan to 958.2 billion yuan in a 3.4-fold increase over 1982, or an average annual 23 percent.

Increase of Currency (1983-1988)

Year	Increase in Money Supply (100 Million Yuan)	Rate of Increase (%)	Increase in Money Supply in Broad Sense (100 Million Yuan)	Rate of Increase (%)
1983	90	20.7	439	15.7
1984	262	49.5	886	26.9
1985	195	24.7	1,083	25.9
1986	230	23.3	1,339	25.5
1987	236	19.4	1,427	21.6
1988	679	46.7	1,556	19.4

A review of the deficit. China's financial deficit increased every year since 1983. It increased 4.35 billion yuan in 1983, 4.45 billion yuan in 1984, and a whopping 10 billion yuan in 1985, creating a book surplus of 2.16 billion yuan, actual deficits being 7.06 billion yuan in 1986, 8.03 billion yuan in 1987, and 8.05 billion yuan in 1988. If debt proceeds are included, the annual deficit was between 30 and 40 billion yuan, the cumulative total deficit reaching more than 150 billion yuan.

The consequence of abrupt increases in the issuance of currency and no let up in government deficits year after year was steady inflation of total social demand, the steady inflation of overall social demand intensifying the shortfall between total social demand and total social

supply. Preliminary estimates show this shortfall as being more than 220 billion yuan as of the end of 1988. In a situation of substantial removal of price restraints, the shortfall between supply and demand fueled steady price increases.

So what caused 6 consecutive years of excess issuance of currency and financial deficits? This stemmed from the dual inflation of both investment and consumption.

Investment inflation is a phenomenon that has regularly occurred in China's history. At the beginning of reform, emphasis was placed on curtailing investment inflation, thereby lowering the accumulation rate, repaying for a while the debt owed the people for 30 years. However, since 1983, investment inflation has become more and more serious. In 1982, the overall scale of the whole society's investment in fixed assets was only 123 billion yuan, but by 1988, it had shot up to 431.4 billion yuan, total social investment in fixed assets averaging 36 percent of national income.

Rate of Investment Inflation (1983-1988)

Year	Total Investment (100 Million Yuan)	Increase Over Previous Year (100 Million Yuan)	Percent Increase Over Previous Year	Investment as a Percentage of National Income	Actual Investment as a Percentage of Plan Investment
1983	1,430	200	16.3	30.2	
1984	1,833	403	28.1	32.4	
1985	2,543	710	38.8	36.2	
1986	3,020	477	18.7	38.3	132.4
1987	3,641	621	20.6	39.1	126.8
1988	4,314	673	18.5	37.4	141.6

As of the end of 1988, fixed assets under construction in China totaled 1.3 trillion yuan in value. On the basis of the actual pre-settlement situation during the past several years, an additional 30 to 40 percent will be needed to complete this investment. This is to say that even without the addition of any new projects, between 4 and 5 years will be required to complete those already underway. The inflation

of investment propelled an abrupt rise in bank loans. In 1982, the bank credit surplus was only 305.2 billion yuan, but by 1988, it increased to 155.2 billion yuan in an average 38 percent annual increase.[figures as published] This included a bank fixed assets credit surplus of 15.2 billion yuan at the end of 1982, reaching 154.3 billion yuan as of the end of 1988 in an average 36 percent annual increase.

Rate of Increase in Loans (1983-1988)

Year	Yearend Amount of Increase in Loans (100 Million Yuan)	Rate of Increase (%)	Yearend Amount of Increase in Fixed Asset Loans (100 Million Yuan)	Rate of Increase (%)
1983	379	12.4	44	28.9
1984	989	28.9	94	47.8
1985	1,486	33.6	416 (Including bank building)	49.5
1985	1,685	28.5	300	42.6
1987	1,442	19.0	281	27.9
1988	1,538	17.1	256	19.9

Investment inflation made bank credit skyrocket, and the abrupt rise in bank credit gave rise to real investment inflation. Among all the sources of funds for investment

in fixed assets throughout society, the percentage of bank credit rose in a straight line.

Percentage of Bank Credit (1983-1988)

Year	Total Investment in Fixed Assets (100 Million Yuan)	Domestic Credit (100 Million Yuan)	Domestic Credit as a Percentage of Investment (%)
1983	1,430	176	12.27
1984	1,833	258	14.10
1985	2,543	510	20.06
1986	3,020	638	21.15
1987	3,641	836	23.0
1988	4,314	1,009 (estimated figure)	23.4

Why was it that in the past 30 years of building the economy China never had the sustained inflation of the present time? The reason lies in the adoption of policies to hold down consumption at that time, while simultaneously controlling prices. During reform, however, low consumption policies were supplanted by high consumption policies. Simultaneous with the inflation of investment was an

inflation of consumption. The total staff member and worker wage bill in 1982 was 88.2 billion yuan. In 1988, it was 229.7 billion yuan, an average 17.3 percent increase each year. Bank statistics showed individual cash disbursements of a wage nature of 115.7 billion yuan in 1983, and 317.9 billion yuan in 1988 for an average 22.7 percent increase.

Increase in Staff and Worker Wage Bill (1983-1988)

Year	Amount of Increase in Total Staff Member and Worker Wage Bill (100 Million Yuan)	Rate of Increase (%)	Bank Individual Disbursements of a Wage Nature (100 Million Yuan)	Rate of Increase (%)
1983	52.6	6.0		
1984	198.8	21.3	257.9	22.3
1985	249.6	22.0	370.2	26.2
1986	276.7	20.0	372.1	20.8
1987	221.4	13.3	354.3	16.4
1988	416	22.1	666	26.5

Simultaneous with the increase in consumption funds was an enormous increase in group consumption. Growth in expenditures for administration and management for each year between 1983 and 1987 was 25.7, 22.5, 4.3, 28.6, and 18 percent respectively, increasing even more to 50.3 percent in 1988.

Investment inflation and consumption investment were still nothing more than surface reasons for currency inflation. Finding the surface reasons, and writing a prescription to treat the symptoms but not the disease made it possible to hold down currency inflation, but not to eliminate it root and branch. Eradication of currency inflation additionally required reasons imbedded in the old system. We believe these imbedded reasons may be found in the following several places.

First, a self-restraint mechanism is lacking in the operation of the national economy; all principal action bodies (including government, enterprises, and individuals) have no self-restraining force. In countries having a well-developed restraint mechanism, both investment and consumption are determined by national income. The amount of revenues determine the maximum limits of investment and consumption. In China, however, investment and consumption have nothing to do with national income. The actual way things work is to set the rate of increase in investment and consumption first, then find the required funds. If insufficient funds are available, either the central bank is compelled to issue currency or to lend money. In investing in construction, the traditional system used for 30 years was primarily for the central government to shoulder the burden. Following reform, the state delegated some investment authority and funds authority to local governments and enterprises; however, key construction was still the province of the central government. The dispersal of financial resources meant government revenues were smaller than expenditures, and since the central government also

lacked inherent power to limit funds, this created a large amount of bank overdrafts. In reality, the issuance of currency was employed to finance construction. At the same time, neither local governments nor enterprises carried responsibility for key construction. When money was available, high profit processing industries, as well as storied buildings, halls, public buildings, and offices were built, which added to the burdens on basic industries, or even methods that intensified contradictions were used to get the central government to invest in major construction projects in local areas. The lack of a restraint mechanism in local governments and enterprises exerted powerful pressures on the central government, which likewise had no restraining force. In addition, low returns from investment in construction also increased investment demand. Statistics show that of the 235 large- and medium-sized projects that were constructed and went into production from 1984 through 1986 (for an expenditure totaling 55.4 billion yuan), only one-fourth attained designed capacity, and half of those that did not reach designed capacity, reached only 39.6 percent of designed capacity. Project cost overruns were between 30 and 40 percent! This created both investment inflation and investment waste. Investment in ordinary projects brought ordinary waste; and investment in major projects brought major waste.

Second, the double political and economic momentum led to the national economy operating under high heat for a long time. The traditional system contained inherent political and economic momentum. The "Great Leap Forward" at the end of the 1950's, the "modernization leap forward" following the smashing of the "gang of four," and the "quadrupling ahead of schedule" that occurred everywhere after 1983 were the result of this momentum. Leaders at all levels had fond hopes that "in their position as officials, they could create prosperity in some regard," and the way to realize their hopes was to

increase investment. They firmly believed that investment could solve all problems and, in fact, getting investment also did bring advantages to the local area. Thus, investment pressure was focused entirely on the central government, and the central government's momentum enabled them to gain satisfaction in currency and credit time after time. However, the tragedy was that the currency issued and the expanded credit did not amount to real funds. More money was needed to buy the same goods, and more that double the investment of currency was needed to offset devaluation of the currency by more than half. Consequently, time and time again, every jurisdiction raised higher demands for currency and credit, and time and time again, this abetted currency inflation.

Third, continuous blunders were made in macroeconomic reform plans and policies. The 10 years of reform may be divided into two stages. The first was one of extreme success from 1979 through 1982. Agricultural production burgeoned, cities expanded the autonomy of enterprises, total social demand and total social supply were virtually in balance, prices were stable, and the people's standard of living was stable and rising. However, from 1983 onward, continuous mistakes occurred in macroeconomic policies. The greatest mistake in the economic realm was abandonment of the policy of steady economic development, and impatience for success in both reform and development. Year after year, the government showed a fiscal deficit, and year after year, the banks issued supraeconomic amounts of currency. In price reforms, there were no clear-cut goals; the pace was too rapid; and timing was wrong. These policy blunders were prominently reflected in the national panic buying spree of August 1988, which forced readjustment and restructuring.

The Fundamental Way To Harness the Current Currency Inflation

Since China's present currency inflation is not the inevitable consequence of reform, there is no need to abandon reform and restore the old system in order to harness currency inflation. Since the fundamental reason for currency inflation is not the public ownership system per se, there is also no need to use the methods of a private ownership system to harness currency inflation. I believe that the fundamental way in which to harness China's current currency inflation is to readjust policies for continued deepening of reform.

First, it is necessary to adhere to a "double tightening" policy for government finance and credit. China's accumulated financial deficit since 1979 is close to 70 billion yuan, treasury bonds and construction bonds amount to close to 100 billion yuan, and foreign loans amount to more than 30 billion yuan. It must be said that construction during the past 10 years has been supported, to a very great extent, by financial deficits, and by going into debt. A small amount of short-term indebtedness during the early stage of development is not a bad idea; however, over the longterm, deficits and a large amount of

indebtedness can only produce currency inflation. China's remedy for deficits is central bank currency issuance, but the central bank's issuance of currency lacks a powerful restraint mechanism. Thus, if currency inflation is to be halted, the financial deficit must be resolutely eliminated. Naturally, at the present time when the central government is in extreme financial difficulties, eradication of the deficit within 1 or 2 years will be impossible; nevertheless, efforts should be made to curtail expenditures, to open up sources of revenues, and to make every effort to eliminate the deficit gradually during the Eighth 5-Year Plan in order to pave the way for bringing currency inflation under complete control.

Credit policies should also be rigorous. Simultaneous with the large government financial deficit since 1984 has been a policy of loosening credit. One of the most important measures for harnessing currency inflation is the tightening of credit. In recent years, the central government has several times reiterated a tight credit policy, but without following through on several occasions. Not just a wavering in macroeconomic policies, but also the credit funds supply system has been an important reason for the lack of follow through. Enterprises have to rely on local specialized banks to meet their needs for funds, and local specialty banks have to rely on the main office of the specialty banks. The main office of the specialty banks depend on the central bank, and when the central bank lacks sufficient money, it prints banknotes. This funds supply system abets ultra-highspeed economic growth, and ultra-highspeed economic growth steadily inflates demand for credit in turn. Such credit inflation becomes a direct propulsion force for currency inflation. Therefore, a halt to currency inflation requires a restriction of the total amount of credit.

Second, the "double tightening" policy for government finance and credit must be meshed with industrial policy. Halting currency inflation requires curtailment of the total amount of government financing and credit, because inflation is in terms of the total amount first of all. The structure is a prerequisite for the total sum. To talk about the structure without reference to the total amount of government financing and credit is meaningless. However, real control of the total can be done only after readjustment of the structure. Otherwise, the economy will operate despite illness, and ultimately it will be impossible to control the total. Readjustment of the structure requires a rational industrial policy. Although emphasis since 1982 has been on agriculture, energy, raw and processed materials, transportation, communications, and education, this is abstract. It lacks the concrete policies and measures able to guide the investment of funds. Recently the State Council announced the key points in China's first industrial policy, which spelled out the direction of structural

reform. The state should use this as a basis for formulating a comprehensive, concrete, and scientific investment policy and credit policy with all possible speed. Structural reforms should be made in conjunction with reform of the enterprise system. They should be made in conjunction with enterprise mergers, bankruptcies, and reorganizations. Furthermore, a corresponding social support system should be erected.

Third, interest rates must be increased enormously.

Banks have increased interest rates several times since 1979, but the increases have not been large. Since 1984, in particular, with the dramatic increase in prices, savings have carried a negative interest rate. Actually, a negative interest rate is a form of tax on savings depositors, and a form of subsidy for borrowers. It should be noted that the loss of control over credit in recent years is directly related to negative interest rates. Interest rates have abetted currency inflation on the one hand, and protected laggard enterprises on the other. So long as an enterprise could get credit, it could survive, so no readjustments were made. In 1988, the annual interest rate was 8.64 percent, but prices rose 18.5 percent. This brought about a tremendous decline in the savings rate, savings throughout the country decreasing by more than 40 billion yuan. The experience of every country demonstrates that interest rates are one of the most important levers for control of currency inflation. Negative interest rates abet currency inflation, and absolutely cannot halt currency inflation. Controversy has raged for a long time about raising interest rates, but a decision has been slow in coming. On 1 February 1989, the savings interest rate rose 3 percentage points, and the loan interest rate rose 2 percentage points, but this was still lower than the rate of price increase, so interest rates did not play a very large role. They have to be increased further, gradually bringing about a positive interest rate. Simultaneous with an increase in the interest rate, reform of the interest rate system is required for the building of a flexible mechanism for setting interest rates that will promptly make readjustments on the basis of price levels and the supply and demand for funds. Of course, a tremendous increase in the interest rate also holds some drawbacks, and it may occasionally cause some problems; nevertheless, comparison of the two makes the advantages and disadvantages of each choice extremely evident.

Fourth is unitary financial and job authority in reform of the investment system. Neither the enterprise reform nor the investment system reforms of recent years have dovetailed government financial authority and job authority. For example, even when the financial resources that the central government has provided have been slight, responsibility for major construction projects has still been borne entirely by the central government. Not only has this created very great pressures on central government finance, but returns on investment have not been high. Under these circumstances, even when local governments and enterprises have the money, they do not use it to build major

construction projects and basic facilities. Instead, their money flows toward processing industries and consumption funds. This is one important root cause for currency inflation. Thus, it is necessary to link financial authority and job authority, both investment authority and financial authority being gradually delegated to local governments and enterprises for a gradual founding of a new investment system in which local governments are primarily responsible for the building of basic facilities, and enterprises are primarily responsible for the expansion of reproduction. This should be done, rather than simply taking back the authority that has already been delegated and restoring the old system.

FINANCE, BANKING

Tax Evasion Among Private Enterprises 'Serious Problem'

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[Article by Yi Yunhe 2496 6663 0735, Income Tax Bureau at the State Tax Bureau: "Analyzing the Social Environment of Tax Evasion by Individually Owned Industrial and Commercial Businesses and Private Enterprises"]

[Text] At present, the serious problem of tax evasion by individually owned industrial and commercial businesses and private enterprises has attracted attention in all circles of society. However, a truly thorough analysis of the causes for this serious tax evasion has so far been neglected. It is generally attributed simply to the imperfect and lax taxation laws and regulations, and to the loopholes in tax collections as administered by the State Tax Bureau. These are indeed causes of tax evasion by individually owned industrial and commercial businesses and private enterprises. But these are not the only causes. In a certain sense, they are not even the most important causes. It is for this reason, that this article intends to investigate the major causes for tax evasion by individually owned industrial and commercial businesses, namely the problem of social environment, and also intends to put forward appropriate measures to resolve the problem.

An analysis of the data from some of the large and important cases of tax evasion investigated and dealt with in various localities, a review of cases of individually owned industrial and commercial businesses vehemently resisting tax payments, as have occurred over the years at various places, as well as an investigation and analysis of representative samples of taxation of individually owned industrial and commercial businesses and private enterprises, make it abundantly clear that the causes for the widespread and serious extent of tax evasions by individually owned industrial and commercial businesses and private enterprises are to be found in the following aspects of the social environment:

First, there is a lack of comprehensive understanding that individual and private economies which develop during the initial stage of socialism cannot be divorced from the macrocontrol of the state. This lack of understanding has resulted in a relaxation of macroregulation and control, as would have been inevitable during the process of development. Even though we are merely in the initial stage of socialism, individual and private economies are only supplementary to the socialist system of public ownership, and may only appropriately develop on the premise of public ownership constituting the dominant system. Their development must, therefore, at all times be subject to the macrocontrol of the state. However, for some time past, there have been certain people in society, even including some leading members of party and government, who have held many lopsided ideas in this respect. They would, for instance, advocate setting no limits at all to the operational scope of individual and private economies. As a result, there have been many instances of individually operated industrial and commercial businesses and private enterprises dealing in means of production, in selling goods that are in short supply, even taking the place of state-owned enterprises in wholesale trade. Moreover, a permissive and compliant attitude was prevalent in neglecting their business operations so that they withheld taxes, which, according to regulations, should have been withheld and turned over to the state. Not only did they not support the tax bureaus in the collection of taxes according to law, but they even pressured the tax bureaus to grant unauthorized tax reductions or exemptions. All these actions seriously interfered with the implementation of the state's tax laws and regulations.

Second, personnel engaged in individually operated industrial and commercial businesses and private enterprises are made up of very diverse elements. A considerable number of them are idle people, some of whom even have criminal records and have been released from the "reform through reeducation and labor" systems without being properly reformed. Most of these people are of a low educational level; they do not obey law, have no understanding of it, and also no fear of it. All they care about, therefore, is how to get rich themselves. They have only a very limited awareness of such concepts as the legal system and the obligation to pay taxes. In the heads of these people, making money is considered something that only depends on exercising one's own ability, and they believe that it is fully justifiable that all money earned should go to no one else but to themselves. They don't realize that without such establishments as communications, information, sources of energy, so on and so forth, built up with the state's financial revenue, which in turn is derived from the state's tax revenue, there could be no talk of developing a modern commodity economy. Therefore, they lack all understanding that it is every citizen's duty under the law to pay taxes.

Furthermore, because of the existence of a variety of economic components, a number of different tax laws

and regulations, and also of different preferential policies for granting reductions of and exemptions from taxation, some individually operated businesses and private enterprises try to take advantage of the tax situation at the expense of the state and in every possible devious way fraudulently obtain business licences as collective enterprises, or attach themselves to the business operations of state-owned or collectively owned enterprises. Some also fraudulently claim to be welfare enterprises of the civil administration, school-operated enterprises, and others. On the other hand, there are also some departments and units, and even leading comrades in party and government, who try to further their partial or local interests by taking a supportive or permissive attitude toward these mechanisms, thereby allowing large sums of the state's tax money to flow into the pockets of certain individuals.

Fourth, after instituting the contractual management responsibility system in the urban areas, some individuals leased or contracted for small-scale state-owned or collectively owned enterprises, or leased or contracted for only one workshop, a retail store, or even only a counter within the said enterprises. They would then merely pay the parties granting the contract or the lease a certain rent or contract fee, thereby taking advantage of the loopholes in the system, which is indeed defective and incomplete, evading taxes, and taking advantage of the lack of coordination and responsibility among the departments involved in these matters. On the other hand, the attitude of the parties granting the contract or the lease would frequently also be one of trying to cover things up, and they are trying to evade supervision and control by the tax bureaus.

Fifth, individually operated industrial and commercial businesses and private enterprises will generally open bank accounts, or they will do so under an assumed name or the name of a family member or friend, while large sums of cash will not be deposited in the bank, since they conduct their business mainly in cash. Moreover, they keep all their supply and marketing channels secret, so that it is impossible to gain accurate insight into the true profit situation of their business activities, making it equally impossible to collect from them all that is due from them in taxes.

Because of the many elements of the social environment that we have mentioned, any effort to resolve the widespread and serious problem of tax evasion on the part of individually operated industrial and commercial businesses and private enterprises cannot possibly be effective if we merely have the tax bureaus strengthen tax collection work. What is necessary is to first of all invest time and energy on improving the social environment of tax collecting, simultaneously with the strengthening of the collection of taxes as administered by the tax bureaus. This alone will achieve ideal results. Measures of improvements in this respect comprise:

Enhancing understanding and intensifying propagation of tax laws and regulations. Increased awareness must

first be imparted of the fact that development of individual and private economies require strengthening of the state's macroregulation and control, awareness also of the fact that improving tax collection work is an important way for the state of exercising its macrocontrol. As we advocate development, we must also advocate taxation according to law. Moreover, we must raise awareness of the fact that partial or local interests must submit to the interests of the whole. It is absolutely impermissible that considerations of partial or local interests interfere with macrocontrol measures of the state adopted for the benefit of the overall interest.

United effort and joint administration, implementing effective overall regulation. The departments having administrative charge of industry and commerce must effectively handle the registration of individually operated industrial and commercial businesses and private enterprises. They must clearly prescribe and strictly control the area and scope of their business operations and must cooperate with the tax bureaus in effectively supervising and controlling their accounting and organizational setup. The banks must as far as possible exercise control over the capital funds of individually operated businesses and private enterprises, and by means of extending credits intensify the banks' guidance of their operations. All communications, postal and telecommunications, railway, and civil aviation departments must intensify their control over shipments of goods and purchases of commodities and materials by individually operated businesses and private enterprises. All public security organs, procuratorial organs, and people's courts shall render support to tax bureaus in their collection of taxes according to law and in their efforts to ferret out cases of tax evasion and other illegal activities. They shall resolutely crack down on those who in violation of the law vehemently resist payment of taxes. Only by having all departments intensify their cooperation and their coordinated actions, and by bringing into play the power of an effective overall regulation, can the favorable conditions be created that will enable the tax bureaus to strictly execute the state's tax laws.

Instituting investigations and effecting appropriate dispositions to bring order into the state's taxation system. All those who have not yet registered for tax purposes, who have fraudulently obtained collective enterprise business licenses or attached their operations to collectively or state-owned enterprises, or those who have fraudulently claimed to be welfare enterprises of the civil administration, or school-operated enterprises, must be investigated and through appropriate dispositions relegated to the status that will make them liable to taxation in accordance with all tax laws and regulations, so as to establish order in the state's taxation system.

INDUSTRY

Official Praises Liaoning Province Industrial Zone

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[Text] Shenyang, October 7 (XINHUA)—The Tiexi Industrial Zone in Shenyang, one of northeast China's key industrial cities, has become one of China's most important heavy industrial bases after more than three years' reconstruction, according to a local official.

The zone, covering 40 sq km and China's largest, now has 640 enterprises covering the machinery, metallurgical, building materials, pharmaceuticals and chemical industries.

Since 1986 the zone has imported advanced equipment and technology. Now, a number of major industrial products made here have reached the world standards of the 1980s.

The Tiexi Industrial Zone has built eight large- and medium-sized foreign-funded enterprises in recent years, and after renewal of equipment some old enterprises' products have been exported to international markets.

SMALL-SCALE ENTERPRISES

Role of Individual in Economy Explored

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[Article by Zhang Zhanxin 1728 1455 2450 of the Beijing Municipal People's Government Research Office; Zhang Wenzhong 1728 2429 0022 of the State Council's Economic, Technological and Social Development Research Center; and Li Fei 2621 7378 of the CPC Central Committee's Bureau for Translation: "On the Citizen as the Primary Unit"; revised in May, 1989]

[Text] The reform of the economic structure in China has reached a historic juncture, where the future direction must be decided. At this time, the most important thing is not to worry about details, but rather to gain a new understanding of the basic ideology of reform which is playing a guiding role. First, we need to see that the ideological track of enlivening enterprises, improving the market, switching government functions and thereby forming an economic movement mechanism in which "the state regulates the market and the market guides the enterprises" only has the enterprises, the state, and the market as important elements of the economic structure. The individual has not yet been seen as an independent element. It is thought that only through the major precondition of "enlivening the enterprises" can the enthusiasm, motivation, and creativity of staff and workers be brought into play. Also, when using the

experiences of modern market economies for reference, we limit this to the market, the enterprises, and the government. There has been a lack of systematic research into the general position and role of individuals in the modern market system and thus, in reform ideology, there is a lack of contents relating to the individual. The above-mentioned biases and omissions in theory and practice are basic causes of reform having fallen into difficulties. This article aims to show that a possible way of escaping these difficulties is the establishment of a new theoretical framework—that of “the citizen as the primary unit.”

I. The Modern Market Economy Structure: The Individual as the Primary Unit

In economic structural reform in socialist countries, the idea of combining planning and the market has received quite a lot of attention, and has had a very deep influence. However, the practice of some East European countries and of our country has shown that reform which sees the “introduction of market forces” simply as some degree of combination between planning and the market, cannot lead to the establishment of a healthy new economic structure. Thus, this puts forward the basic theoretical question in economic structural reform of how to completely and correctly master the essence of a market economy, and especially of a modern market economy.

A. The perfect competition market economy and its core.

The perfect competition market economy is the earliest form of the market economy. Under a system of perfect competition, the government basically does not intervene in economic activities and there is no economic force controlling the market. Enterprises are mainly owned and operated by individuals and individuals freely enter the market to engage in the exchange of commodities and means of production at equal value, while economic movement is automatically regulated through the market mechanism. The basis of a perfect competition economic structure is the market economy system (abbreviated to “the market system”). The main contents of this system are:

1. The three basic principles of normative social activities. These include: a) The principle of protecting private property: any property which an individual has gained through lawful means belongs to and can be disposed of by that individual, and cannot be violated by other persons (here private property includes an individual's labor); b) the principle of freedom to contract: any person can enter a contract in respect of economic activities with another person and other persons cannot arbitrarily interfere; c) The freedom of self-responsibility: the gains obtained or losses incurred by an individual engaged in economic activities are the responsibility of that person and others have no responsibility.

2. The three major freedoms of social entities. These are: the freedom of the producer, the freedom of the consumer, and the freedom of the laborer. The freedom of the producer refers to the freedom of the individual to engage in industrial and commercial activities. The freedom of the consumer refers to the consumption choice freedom by which an individual can decide how to dispose of his private property. The freedom of the laborer refers to an individual's freedom in terms of choice of occupation. These freedoms are, on the basis of the three principles above, a stipulation of the basic economic activities of the individual. The above-mentioned aspects show that the basic significance of the market system lies in the process whereby, through the stipulation of the general and basic economic rights and obligations of the members of society, the independent economic status of the individual in economic activities is established and the individual is given full economic freedom.

Seen from the historical angle, once the individual struggles free and is liberated from the patriarchal clan system and the manor economy and becomes a social citizen with economic and other freedoms, this provides the major conditions for the emergence and development of the perfect competition economy. The development of the perfect competition economy in turn plays a role in safeguarding and promoting the individual's economic freedom and other freedoms. The economic freedom of the individual is the core of the perfect competition economy. The thinkers who advocate perfect competition hold that the individual as a free and independent economic person who engages in economic activities of his own volition, and seeks corresponding interests and self-responsibility, is the wellspring of economic vigor and a precondition for the optimized deployment of resources. They also see it as the only major economic condition for the formation of a socio-economic order. They see the task of the state as using laws to safeguard the free market system; that is, to act as the “watchman.” This is the so-called “laissez-faire” ideology.

B. The basis of the modern market economy system.

The perfect competition economy existed in the 18th and 19th centuries. Seen from its practice, this economic system did not completely accord with the original ideas of its designers. Unfair distribution led to social contradictions and antagonism, monopolies had a negative effect on the production structure, and so on. This showed that simply strengthening the freedom of the individual was not sufficient to maintain good economic and social order. It was also difficult to guarantee economic efficiency; this even led to the harming of the freedom of the individual. Thus, from the beginning of the 20th century, the market economy was gradually improved. That is to say, at the same time as maintaining the market system, there was a great strengthening of the state's roles in terms of regulation, planning, and welfare, and thereby the modern market economy system was formed.

The strengthening of state management reduced, to a certain degree, the scope and role of individual economic freedoms. However, the modern market economy system is still based on the independent economic status of the individual. First, under the modern market system, competition is still the major mechanism of market movement and the freely decided activities of the individual are still the basic elements in market movement. Further, as far as government management is concerned, the independent status, rights, interests, and activities of the individual are indispensable preconditions. The ideology of government intervention has, as its basic concept, the idea of the individual as an independent, complete economic entity. Also, macroeconomic regulation, which has financial measures as its basic components, plays a role through the free activities of the individual. That is to say, state management under the modern market economy is not the negation of the independent economic status of the individual, but rather the base point of this independent status.

Another issue that needs to be pointed out is the rise of monopolistic market forces such as large enterprises and organizations such as trade unions. Does the growth of these monopolistic forces mean that the independence of the social citizen is headed for extinction? By no means. These monopolistic forces, as special interest groups, can only exist and play a role by representing the status and interests of certain citizens. In various market system countries, the power of various groups may be quite strong, but they will not be strong to the degree where they completely ignore the interests of other groups or citizens of the society. The influence and conditioning of socioeconomic activities by citizens with independent status and their representatives is very real, and the government on this basis encourages checks and balances between economic forces. This further shows that the independent economic status of the individual citizen is the main basis of the modern market economy system.

C. A comparison of the current economic systems in the various socialist countries and the modern market economy system

In order to better understand the modern market economy, it is necessary to compare the current economic systems in the various socialist countries and the modern market economy system.

Nearly all socialist countries have followed the Stalinist model. This is an economic system which has highly centralized unified planning, where enterprises do not make their own decisions, where the market is not free, where individuals have no freedoms, where the state acts as the sole organizer of the national economy, and in which the corresponding guiding ideology is one where the state is all-powerful. Beginning in the 1950's, the majority of socialist countries began to improve the Stalinist model, and market factors were drawn into economic activity. The country which has been engaged

in this for the longest time is Yugoslavia and, by surveying the theory and practice of its economic system, we can discover two major characteristics: first, although it has drawn in more market factors than other socialist countries, it does not have a complete market economy circuit (it lacks exchange of capital); second, in its guiding ideology, it rejects the idea of the state being all-powerful, and replaces it with that of autonomous organizations being all-powerful. That is, it considers that the autonomous organizations are the guiding forces of socioeconomic movement, and the market mechanism is just a supplement to the autonomous groups.

Further, seen in terms of socialist countries, regardless of whether they have engaged in reform or not, their economic structures have a common characteristic. That is, they need a fixed organization or organizational system to act as the leading force of the social economy. This organization or organizational force can be a centralized and graded government structure, a management system which, through some power, divides things between the government and the enterprises, or dispersed organizations, such as the autonomous workers groups in Yugoslavia. As these organizations or organizational systems have to play a guiding role, they have to be orthodox, and other nonorthodox groups cannot consult with them on an equal footing. These organizations must also be all-powerful. That is, they must be able to represent the interests of society and also be able to represent the interests of the members of the organization. Such organizations must also have self-rationality. That is, they must be able to readjust themselves and improve themselves as, otherwise, they will have no way to act as the "the leading force". With such an orthodox, all-powerful, and closed organization or organizational system as the leading force, it is inevitable that overall there is the rejection or limitation of the independence and role of the individual. It is felt that only when the individual is organized can his abilities be brought into play and can he realize his interests. The freedom of the individual to choose his occupation and mode of consumption is only a supplement to the activities of the "orthodox organization." At the same time, it is maintained that only when there is the orthodox organization can the interests of the "whole body of people" be represented, and thus workers movements, consumers movements and residents movements which represent the special interests of citizens of the society are cold-shouldered. Thus, in terms of basic concepts and key systems, the current socialist economic systems have the organization or organizational system as the primary unit.

The modern market economy system and the current socialist economic system have essential differences. First, the modern market economy does not try to "use" the market mechanism, but has the complete market system as its main component and has the economic freedom of the individual as the source of economic vigor. Second, under a modern market system, all economic organizations are formed through the free and

independent participation and assembly of individual citizens, and all are restricted by the citizens of society within and outside the organization and their interests representatives. The relationships between organizations and the individual and between various organizations are completely equal and there is no so-called orthodox, all-powerful organization. Third, policies are based on the independent economic status of the citizens of society. In regulation and management of the national economy, efforts are made to join together the interests of the various types of citizens with the interests of the entire society, so as to guarantee economic efficiency and maintain economic order. Thus, in terms of basic concepts and key systems, the modern market economy system has the individual as the primary unit. Clearly, differences exist between the members of society in the various modern market economy countries, and in some countries these differences can be very great. However, the governments of these countries put efforts into giving attention to both fairness and efficiency, and have obtained different degrees of success. The modern market economy system in general accords with the development of the social forces of production, and the various market economy countries have resolved some problems which the current economic systems of socialist countries have been unable to resolve. Further, they are now resolving some problems which were once considered to be innate problems of the market economy. Thus, while we explore the road for reform, we must not adopt the attitude of ignoring the contemporary achievements of the modern market economy and completely negating its experiences.

II. The Successes and Failures of Our Country's Economic Structural Reform and the Question of the Economic Status of the Individual

After becoming clear on the question of what the market economy is and is not, below we will explore, from the angle of the economic status of the individual, the successes and failures of our country's economic structural reforms.

A. The idea of "the enterprise as the primary unit" and the shortfalls in enterprise reform.

In the early period of economic structural reform, the exploration in our country's theoretical circles was, for a time, centered on the old question of the relationship between the central authorities and the localities. However, a small number of scholars began to pay attention to the position and role of enterprises in national economic movement. For example, in 1980, in the article "On the Enterprise as the Primary Unit" by the economist Jiang Yiwei [5592 0001 5517]¹ it was held that excessively stressing the centralization of power, and engaging in internal unified management and unified accounting with the state as the primary unit of economic organization—that is, the idea of "the country as the primary unit"—as well as the excessive stressing of the giving of power to the localities, or the "theory of the locality as the primary unit" were both wrong in theory.

It was held that the only correct ideological road was one in which the restructuring of our country's economic system had enterprises as the basic unit of the economy.

The idea of "the enterprise as the primary unit" has played an extremely positive role in the exploration and practice of reform. However, following the passage of time, its shortcomings on the theoretical level and in terms of its conclusions have gradually become more obvious: 1) If one speaks only in terms of the management or organizational mode of the national economy, in the organizational system formed by the central authorities, the localities and the enterprises, it is correct for the enterprise to be in the primary position. However, the economic structure is not just a management mode. It also touches on deeper systems, and thus it is difficult for the idea of "the enterprise as the primary unit" to be the basis of the economic structural reform goals. 2) Although the idea of "the enterprise as the primary unit" affirms the independence and autonomy of enterprises, as it sees the interests of enterprises as not being further divisible, and considers that there is a "collective of staff and workers" who "are commonly responsible for profits and losses," it excessively simplifies the rights and interests structure and operational mechanism of enterprises. 3) The idea of "the enterprise as the primary unit" does not elaborate on the staff and workers of an enterprise being independent and freely-deciding social laborers, and does not raise the issue of the ordinary citizens of society having an independent position and role in economic activities. Rather, it replaces the autonomous activities of individuals by the collective activities of enterprise organizations, and thus ignores the economic entity attributes of the individual under market commodity conditions.

At a time when economic structural reform focused on the cities was being developed in an overall way, reform theory had already seen a certain amount of development. However, on enterprise reform and related questions, people's understanding widely and for a long time took "the enterprise as the primary unit" as the model. This inevitably led to mistakes in ideas on enterprise reform. These mistakes were centrally reflected in the understandings of how we are to get enterprises to truly make their own decisions and be solely responsible for their own profits and losses. For a long time, the popular view has been: At the same time as the state revives the autonomous decisionmaking power of enterprises, reform of the enterprise leadership system, operational modes, and distribution modes will finally allow the enterprises to develop the capacity to be self-correcting, self-restraining, and self-improving. After correctly handling the relationships between the state enterprises and the staff and workers, the enterprises will respond to the guidance of market signals, and will take on corresponding social responsibilities. This understanding is based upon the precondition or hypothesis that "an enterprise's rationality has its origins in the enterprise organization itself." However, this precondition actually is not tenable. A clear fact is that under a market system,

the rights of consumers to choose can play a very great restraining and correcting role on enterprise activities. Holding that an enterprise's rationality comes from the enterprise organization itself (regardless of whether we are talking of collective decisionmaking or individual responsibility), in fact completely denies the basis of the market mechanism and other social mechanisms, and the essential influence which the "living individuals" both within and outside the enterprise organization exert on enterprise activities. Engaging in enterprise reform on the basis of the above-mentioned understanding will result in people increasingly seeing, not the rational activities they hoped to see from the enterprise, but nonrational activities. The most prominent and serious of such activities will be the trend towards clannishness [jia zu hua 1367 2469 0553] in enterprises.

B. The trend toward clannishness in enterprises and the nonindependence of laborers.

The trend towards clannishness in enterprises refers to a tendency whereby a situation in which staff and workers of an enterprise are appendages of the enterprise and the enterprise fetters the staff and workers, produces a reduction in the development capacity and motivation of the enterprise. This is mainly manifested in: enterprises' goals are not the making of profits and the expansion of the enterprise, but the maximization of the income of staff and workers; egalitarianism in distribution is difficult to suppress and there is an intense situation among enterprises where each enterprise vies to provide better terms and conditions to staff and workers than do other enterprises; the amounts given to staff and workers in kind and in cash, in excess of their salaries and bonuses, and for which there is per capital distribution, "continue to rise; situations of surplus workers and lack of workers coexist in enterprises and "permanent workers watch while the temporary labor does the work"; claims that enterprise interests are violating the lawful interests of staff and workers are continually being heard and so on. The trend towards clannishness in enterprises has produced a situation where wages erode profits, enterprise efficiency falls, and state fixed assets are harmed. This encourages short-term activity by enterprises, affects interpersonal relations in enterprises and the enthusiasm of staff and workers, and obstructs the healthy development of an entrepreneurial strata. At the same time, on the macroeconomic level, it has led to wage growth exceeding the growth in labor productivity and exacerbated the pressure of inflation.

Modern enterprises, which should be using social resources (including labor resources) in an open and highly efficient way, have instead exhibited the characteristics of closed, inert manor or clan activities. This is the "alienation" phenomenon in the process of reform by which market forces are being introduced. The emergence of this phenomenon of "alienation" has not resulted from the state handing down power to enterprises, but from the fact that at the same time as enterprises' independence has been increased, there has been no corresponding and timely resolution of the

problem of the nonindependence of the laborers. The nonindependence of laborers refers to the laborers not having an independent economic status. The staff and workers of enterprises not only receive their salary from their enterprise, but also a large volume of their welfare benefits and guarantees (such as housing and medical treatment). The rights, interests, reputation and position of staff and workers are derived from the nature and status of their enterprise, and thus staff and workers are divided into different grades. In this way, the staff and workers, as members of an enterprise, belong to their enterprise and are not social laborers with general status and rights who are independent of the enterprise. They are not natural persons who have entered a laboring relationship with their enterprise on a free and equal basis—as citizens of the society. Labor relations thus cannot become the guide for the relationship between enterprises and staff and workers, and it is naturally difficult for a labor market based on labor relations to be developed. This is the origins of the tendency to clannishness in enterprises.

C. The economic status of the individual, and the government and market.

Under our country's traditional system, the basic economic activities of society were not the self-chosen activities of individuals. Rather they were organized activities. That is, they were activities by which factories, communes, brigades and such "socialist basic-level economic units" implemented state plans, and individuals were arranged in a unified way within these "basic-level units." In this way the individual, in the production, distribution and consumption spheres, was placed in a completely or almost completely passive position, and basically was without the independent will and rights and interests of an individual. Rather, they were just organizational members of these "economic units" and they were required to have a singular organizational status.

Since the beginning of the reforms, enterprises have been seen as the most basic economic entity and there has not been full attention paid to the the deepest base of the economic structure—the economic status of the individual. Thus the problem of the nonindependence of the economic status of citizens, and especially of urban citizens, has been manifested in a new form. This has not only meant that enterprise activities have been difficult to rationalize, but has also presented great obstacles to the switch in government functions and the establishment of a market. Even now, the government has still not given up "looking after every need of" and "managing" the individual and the reliance of urban residents on the government has in some respects grown stronger. For example, from 1978 to 1987, the financial subsidies used to offset the negative differential between purchase prices and sale prices have seen an average annual growth of 20.3 percent. In the same period, the state's financial revenue has only grown at a rate of 8.7 percent. At present, this financial subsidy alone is equivalent to 55.3 percent of the state's budgeted capital construction

investment. In this way, although in terms of consumption and choice of occupation the individual has obtained a certain degree of right to choose, because of the reliance of the individual on the government and the unit, and because of other restrictions on the activities of the individual, the individual is a "subject" of the government and a "subject" of the unit in which he works, rather than an independent, autonomous citizen of society. This greatly stifles the motivation and initiative of the individual to fully utilize his own production resources, to rationally deploy his economic income and to make efforts to improve current life and his future. This forms a real situation of "noncapitalization of manpower" and a mentality among individuals of "no-risk expectations."² On the one hand, this leads to obvious deviations by the individual in consumption tendencies and consumption structure, and on the other hand, people's psychological capacity to bear supply-demand changes in the market is greatly weakened. This exacerbates the imbalance and fluctuations in the market. The subsidy of the government thereby grows heavier daily, placing the government in a dilemma as to whether or not to hand down power to enterprises or to free prices. Thus it is very clear that the individual lacking an independent economic status has become a basic obstructing factor in the enlivening of enterprises, the development of a market, and the changing of government functions.

D. The inspiration of rural reform and the calls of urban reform.

When we take the individual citizen as the target of examination, we discover that the basic reason the rural reforms were able to realize such great achievements was that the hundreds of millions of peasants recovered their right to property, right to labor and right to contract, and they became "economic persons" who made their own choices and took their own responsibility. The fact that 180 million peasants are now freeing themselves from their reliance on the land, and that rural industrialization and rural commerce are seeing such development, are powerful demonstrations of this.

The cities are the places where modern industry is centered. Under market conditions, if the cities are to become the mainstays of the modern market and the place where free enterprises will congregate, then first they need to become the place where independent, free citizens of the society will gather. In history, the rise of cities and the emergence of the free citizen have had an innate relationship. The basic experiences of the rural areas of our country in this respect have not been subject, in a timely way, to scientific summary and reference. This has led to a situation where urban reform has for a long period made enterprises the "starting point." This truly is a pity.

Of course, by making the individual the subject of close scrutiny, we can discover that a latent trend has begun to appear. The development of private capital, the reform

of the labor personnel system, the promotion of privatization of housing, and the government's increasing tendency to see the individual as the target of regulation, as well as the formation and development of various types of interest groups, forebodes the shift in the focus of reform towards the individual. Thus, the progress of the reforms has now reached a stage where the reforms must transcend "the enterprise as the primary unit" and the other various ideas of "the organization as the primary unit," and the handing down of power and taking back of power simply between the government and enterprises needs to be stopped. There needs to be an acceptance of the basic concepts of the modern market economy and the establishment of the idea of the individual as the primary unit.

III. The Main Points and Significance of "the Citizen as the Primary Unit"

A. The individual should become a citizen with individual rights and obligations.

The social economy is a general term for mankind's social production, consumption, and related activities. In modern society, the consumption activities of the individual, as a member of society, are always carried out within a certain degree of choice and control by the individual. Thus, on the basis of participation in production activities, the obtaining of economic income through some means and the use of this income to maintain individual subsistence shows that the individual is the smallest economic unit of modern society.

Under our country's traditional society, the independence and role of the individual as an economic unit was very weak. If the traditional economic system is to be reformed so that production resources and products are mainly distributed through market exchange at equal value, the individual, as the owner of certain property, the owner of labor, and the user of final products, must be liberated from relationships of subordination to the government, enterprises and other organizations, and obtain independent economic rights and obligations. These economic rights and corresponding obligations should be innate to the individual, as a citizen of society, and have nothing to do with organizations in which the individual participates. These rights and interests should be the basic contents of the socioeconomic system, and must be stipulated by the Constitution and by basic laws which include the entity of the natural person (such as labor laws and consumer rights laws). They should not be stipulated by laws which only have the corporate body as the legal entity (such as enterprise laws). These economic rights include the right to choice, the right to profits, and the right to receive protection, which are rights possessed by an individual citizen playing a stipulated economic role (for example, as laborer or as consumer). The corresponding powers and duties when an individual participates in a specific occupation or profession derive from these rights and obligations. It is only when the individual is freed from all restrictions from organizations and from his status he becomes a socioeconomic

entity with independent economic rights and obligations—that is, he becomes a citizen of society—that it will be possible to form relationships of exchange at equal value between various individuals and between individuals and organizations. And only thus will it be possible for the market mechanism to play its due role and will the enthusiasm, initiative, and creativity of individuals be able to be given full and effective play in freely decided activities of seeking personal interests.

The individual, as a citizen of society, should enjoy normal and full economic freedoms. This is not something which will harm the order of the social economy. What is meant by normal economic freedoms includes the two sides of free choice of economic activity and self-responsibility for economic activities. The various chaotic situations which have appeared in the economic structural reform of our country have not had their origins in this freedom, but have resulted from lopsided economic freedoms. A small number of people used the dual pricing system and the expansion of the power of enterprises to abuse their powers and not take appropriate responsibility. The establishment of the new economic order requires normal economic freedoms.

B. The citizen as an entity is a precondition for enterprise vigor.

The enterprise is the creator of social productive forces. An important characteristic of the modern market economy is a highly developed free enterprise system. The vital modern enterprises which will be produced and develop in competition will not only provide society with increasingly great social wealth, but will also, in a wider sphere, create social culture. Stressing the nature of the individual citizen as an economic entity does not negate the position and role of enterprises. On the contrary, as the modern market economy established the independent economic status of the citizen of society, the individual citizen, when entering an economic relationship with an enterprise, will be an economic entity equal to the enterprise, the person who undertakes the obligations of the enterprise and demands the rights of the enterprise. Only thus will the enterprise's rights and obligations be affirmed, and will the enterprise's operating rights and society's restrictions on the enterprise be formed. Only in this way will it be possible for the enterprise to become a modern enterprise with full decisionmaking power and a high degree of responsibility to society.

In respect of the relationship between enterprises and the individual citizen, in the past people have generally stressed the relationship between enterprises and the consumers, and have not paid full attention to the relationship between enterprises and the laborers. Or else, they simply saw this relationship as one between the enterprise organization and its members. In fact, an enterprise is both a commodity producer which is responsible for its own operations and responsible for its own profits and losses, and also a controller and user of production factors (including labor). The laborers of an

enterprise are first citizens of society independent of the enterprise. They are the owners of their own labor and it is only when the individual enters a labor exchange relationship with an enterprise and the power of control over his labor is given over to the enterprise that the laboring individual becomes a member of the enterprise. Thus, the independence of enterprises and the independence of laborers are of an equal standing, and choice is dual-directional. Regardless of to what ownership system the enterprise belongs, or what operational mode it has adopted, labor relations are the most basic relationships between the enterprises and staff and workers. Any ideas or practices which diverge from this are not in accord with reality and are harmful.

C. The independent economic status of citizens is the basis for the government's implementation of new economic functions.

Stressing the nature of the citizen as an entity is not advocating anarchism in the economy. The formation of the independent economic status of citizens is mainly demonstrated by the full economic freedoms of the individual. A secondary or subordinate characteristic is that the citizen, under the precondition of economic freedom, pays taxes in accordance with the law. The process of reform has shown that the government's management of the economy must gradually change from direct control to indirect control and thereby form new economic functions. The practice of the modern market economy has shown that indirect regulation and control of the macroeconomy must have the independent status of the individual as a basis. This is shown by: 1) Only when there are individuals who enjoy full freedom in their activities will there be complete supply entities and demand entities who can respond to market signals, and will it be possible for the government's activities in using fiscal and banking measures to regulate total market volumes and the market structure to achieve anticipated results. 2) The payment of tax and purchase of government bonds by the individual is one of the major sources of funds for the government in maintaining public expenditure. 3) Due to different economic status and interests, different interest groups are formed between citizens of the society. This requires the government to formulate and implement laws, plans, and public policies to serve as the "arbitrator," so as to achieve mutual restraint and overall balance between the economic forces, and guarantee the stable and coordinated development of the society.

As far as our country's reform is concerned, it will only be with the formation of the independent economic status of the individual that the government will be able to get rid of its heavy financial millstone, and nongovernment capital and entrepreneurs' ability to use restraint will be able to greatly increase. Only thus will economic activity be able to look towards finally throwing off direct government organization and control, and will it be possible to gradually establish the new government functions and authority required by the modern market economy. Of course, this process will be

completed only gradually and, in the current changeover from the old system to the new, the government must, in various respects, continue to engage in direct control and even directly act as organizer. This is a problem on another level.

IV. The Revival of the Economic Status of the Individual and the Idea of 'Privatization'

The revival of the economic status of the individual is the inevitable end-result of having "the citizen as the primary unit." We must thoroughly eliminate the non-independent economic status of the individual which has been produced by the traditional system, must establish the independent economic status of the individual citizen and, on this basis, form various types of economic entities and social entities as well as new mutual relationships between them, so as to change the economic movement mechanisms and corresponding social mechanisms. Only thus will we be able to finally form a new socioeconomic order in terms of interests, motivations, and order, and complete the historical task of establishing a market economy which has macroeconomic management. This means that the revival of the economic status of the individual is the main thread of economic structural reform.

In order to ensure that the above conclusions are more convincing, there is a need to give an appraisal of the idea of "privatization." Recently, some people have proposed that the key to China's reforms is the realization of a certain degree of privatization of property, and thus there is a need to divide or transfer the majority of state assets to individuals. A basic starting point of this idea is the belief that the privatization of assets is the only guiding economic relationship in the market economy. In looking at this idea we will analyze it first from the angle of property relationships.

The private ownership system is not something peculiar to the market economy. As soon as the primitive clan communes disintegrated, the private ownership system was formed. However, private ownership prior to the market economy was mutually linked with the natural economy, clans and manors, feudal lords and slaves. It was a closed, privileged, and graded system. The basic difference between the market economy and the natural economy lies not in the private property system, but in the economic freedom of individuals. The economic freedom of individuals changed the contents and extensions of the traditional private ownership system and prepared conditions for the assets of individuals to become floating, expanding capital. The freedom of the individual led to the view of labor as a commodity. The market economy, with the economic freedom of the individual as a weapon, has completed the critique of the traditional property forms and labor forms, and subsequently inherited them.

The capitalization of property and the idea of labor as commodity are two basic conditions for the formation of

a market economy. However, in the process of development of the market economy, antagonism between capital and labor will appear, which actually forms a situation where labor becomes dependent on capital and capital possesses and controls the labor. This "alienation" was denounced by Marx as an evil aspect and incurable problem of the capitalist private ownership system and in history it has led to intense social clashes. After the beginning of the 20th century, because of improvements in the market economy system, the high degree of development of the productive forces, and the progress of science and technology, the above-mentioned situation saw very great changes. First, the assets owned by individuals widely increased and the members of society who controlled capital grew greatly in number. This ended the monopoly on capital which had previously been enjoyed by a small number of people and obviously reduced the scarcity of capital. Second, the growth of share capital, bank capital, and government public funds indicated the socialization of property. Third, the entrepreneurial and technological strata, as well as labor movements and citizens movements, began to have an influence, much like the assets owners themselves, on the activities of enterprises. These factors not only greatly alleviated the antagonism between private capital and labor, but also formed modern property relations and modern labor relations which were both mutually linked and yet mutually independent. Thereby was formed the major basis of the modern market economy relationships.

The above analysis reveals from various angles the limitations of the idea of "privatization." First, in terms of basic assessment, the majority of the people who advocate "privatization" sum up the problems encountered by the present economic structural reforms as being due to the state ownership system. In fact, the basic causes of the current difficulties in reform lie not only in property relations, but also in the relationships between the enterprises and staff and workers and between the government and individuals. Second, the idea of "privatization" generally advocates the expansion and strengthening of private ownership rights and, on this basis, widely establishing the new system in an overall way. However, it needs to be recognized that although private operation enterprises and the individual economy (including peasants) have been affirmed, no trend towards the socialization of property has emerged. On the contrary, the tendency of production funds being reduced to consumption funds exists to a serious degree. If this is going to be the case for the private-operation economy and the individual economy, and state assets are turned over to individuals, will we be able to prevent them from becoming individual family property, thereby delaying the socialization of property? Further, at present, the governments and enterprises still play a role as "primary units." If we implement "privatization," it is possible that new divisions between people and property and a new natural economy will emerge. Third, the major question of how to establish labor relations which

assist and accord with property relations is also overlooked by those who subscribe to the idea of "privatization." Some people hold that "privatization" will widely result in staff and workers becoming the owners of enterprises or result in the establishment of a "system of individual ownership by laborers," and thus the many problems in the relationship between labor and capital in the economic structure will be resolved at one stroke. This is truly an overly naive idea.

The revival of the economic status of individuals means that there must be reform of the traditional state ownership system. This reform will involve many areas, including the transfer, through market exchange, of a small volume of state property rights to the nongovernment sphere. It will also involve the establishment, on the basis of reform of the tax system, of a new form of government public property, so that state-owned enterprises become commodity producers and operators that take their own operational decisions and are responsible for their own profits and losses, and so on. The experiences of a number of countries have shown that, as long as the idea of the state as the primary unit is negated, a certain number of state-owned enterprises can continue to exist and can be enlivened. At present, a pressing task of reform is the establishment of the independent status of social laborers through the breaking down of the old labor personnel system, the improvement of social insurance and social guarantee systems, the development of a labor market, and the implementation of labor legislation and trade union reform. The establishment of such a status will be of special significance in further promoting the reform of the economic structure and the political structure.

The essence of economic structural reform is the systematic changing of the relations of production so that they accord with the development of the productive forces. That is, the task of building a modern state, which is the responsibility of the whole nation, is handed down to every individual. An economic structure full of vigor and vitality must be a system which has millions of independent, motivated people engaging in their activities and developing fully. It must also be a system which the whole body of independent and freely-deciding citizens of the society build for themselves.

Footnotes

1. See ZHONGGUO SHEHUI KEXUE [CHINESE SOCIAL SCIENCES] No 1, 1980.

2. See "Residents' Consumption Choice and the Growth of the National Economy" in JINGJI YANJIU [ECONOMIC RESEARCH] No 1, 1988.

FOREIGN TRADE, INVESTMENT

Traditional Approach to Trade 'Unsuited' to Developing Nations

40060727A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 7, 20 Jul 89 pp 58-65

[Article by Xue Jinjun 5641 6651 6511, Wuhan University School of Economics: "International Trade Theory for Developing Countries and the Insights It Provides for China"]

[Excerpts] The question of what kind of international trade theory developing countries should follow has always been controversial. Some developmental economists believe that traditional international trade theory is equally suited to developing countries. Yet most such experts argue that traditional theory (collectively known as the "theory of comparative advantage"), which is rooted primarily in comparative cost, factor endowment, free trade, and other theories, is based on the interests and experience of developed countries and basically is unsuited to developing countries (but do not deny that certain principles do have some applicability). In criticizing the old theory, these scholars, proceeding from the realities in and interests of developing countries, have advanced new theories that are better suited to the countries. Though not perfect, these theories have provided some guidance for the development of the countries' foreign trade and had a positive effect on making international trade more beneficial to the countries. Without a doubt, these theories also provides China with a certain amount of inspiration and guidance. [Passage omitted]

Some Ideas on How China Should Develop Her Foreign Trade

A. China urgently needs to develop its own foreign trade theory. Although our country is a large developing country, our foreign trade comprises a very small share of the world total. This situation is due to the fact—as well as to other factors—that we have long lacked a theory of foreign trade suited to our country. While we discussed such theory a few years back, our focus was on comparative cost and on finding a theoretical basis for the policy of opening up to the outside world. Our foreign trade theory is even weaker and more impoverished than our general economic theory. What we follow in our foreign trade operations is groping utilitarianism, using the utterances and directives of a few leaders as our guiding principles, inevitably producing a number of strategic and policy blunders in foreign trade. Thus the rapid development of Chinese foreign trade theory is an urgent priority.

B. Some of China's foreign trade development strategies are not scientifically grounded or practical. China is eager to develop export-led trade so as to spur industrialization and economic development and thus has initiated the strategies of coastal economic development, putting both ends abroad, and high-volume importing

and exporting. Although the strategies are well intended, their theoretical grounding is highly questionable, as they are rooted, I believe, in the following assumptions. 1) China possesses abundant resources and cheap labor and can increase the international competitiveness of her products and expand her foreign trade by producing and exporting labor-intensive goods. 2) China can use labor-intensive primary and processed products to earn foreign exchange which she can then use to import capital and intermediate goods in order to support full-scale industrialization, provide employment for surplus labor, and transform her dual economy. 3) There is the belief that, since the four little dragons of Asia are restructuring their industry and developing hightech products and competing with Europe, America, and Japan, we can exploit this opportunity to take over the world markets the dragons abandon. 4) There is the belief that, since the dragons have successfully become newly industrialized countries (regions), China should develop an externally oriented economy that is primarily export-led. I believe these bases are insufficiently scientific and realistic.

First, China does possess abundant resource reserves and cheap labor. Nevertheless, China, like other developing countries, does not have many developed and usable resources at all, its per capita supply thereof is much lower than the levels enjoyed by developed and most developing countries, and thus resource supply constitutes a major bottleneck and constraint on its foreign trade and economic development. Although possessing a large labor force, China nonetheless faces great dearth of skilled labor, especially technical and managerial personnel. Thus, while cheap, China's labor is very unproductive, its production costs are high, and it is very difficult for it to compete internationally. Therefore, China enjoys no advantage whatsoever in resources and labor. And even if China did, abundant labor no longer is a decisive factor underlying economic growth and product competitiveness, so basing foreign trade strategy on this factor is unscientific or at least lacks long-term perspective. The dragons recognize this fact. Why do we insist on aping their old strategy?

Second, exchanging primary and common processed goods for capital and intermediate goods is an old pattern and model that, while benefiting developing countries to some extent, also subjects them to such major headaches as deteriorating terms of trade, unequal exchange, mounting foreign trade and international current account deficits, protectionism in developed countries, debt crises, and grotesquely skewed economies. Many astute observers in developing countries have long recognized this point and strived to change the old pattern by working with other countries, creating a new international economic order, and steadily readjusting industrial and export mixes. China will surely reap dire consequences if she, in eagerness for quick success and instant reward, apes other countries.

Third, while the dragons indeed will cough up some of their international markets as they restructure their

exports, questions remain: 1) Will these markets survive? I think there is good reason to doubt that they will, because most of them involve production that is being phased out as it wastes much energy, pollutes, is labor-intensive, and yields obsolete products. Does China really want these markets? Even if it does, can China perpetuate them? Can obsolete products and markets fuel the development of our foreign trade and economy? 2) International markets are growing increasingly competitive. So will Chinese products beat out those of other countries in competing for the markets abandoned by the dragons? Can China take over these markets? It is doubtful that China can if it relies on labor-intensive processing.

Fourth, the principal form employed in our coastal development strategy is processing, and the primary methods are putting both ends abroad and high-volume importing and exporting. These approaches, too, are impractical for China. According to statistics, in 1988 China's two-way trade totaled \$102.79 billion, and she had a trade deficit of \$3.09 billion, a cumulative foreign debt of \$30 billion, and only \$10-odd billion in foreign exchange reserves. Beginning in 1990, we will have to start servicing our foreign debt, paying approximately \$4 billion a year,¹ which means that foreign exchange will be very tight. High-volume importing and exporting, however, requires large quantities of foreign exchange in order to import capital goods and raw materials, which clearly will be hard for us to do given our current foreign exchange payment capability. Even if we do pull it off, we will have to sacrifice other necessities to do so. Further, the processing that is slated for development in coastal regions primarily will involve production of common industrial goods and home appliances, most of which are 1970s vintage, obsolete, or being phased out and whose international markets are becoming saturated, whose potential is limited, and thus whose growth and foreign exchange earning capacities are very limited and whose future is by no means bright. And using large inputs of foreign exchange to develop these types of products will not necessarily yield good economic results. What is more, China is leaning toward devaluation of the renminbi and this, in addition to increasingly serious inflation, is certain to cause the costs of imported inputs to spiral and to weaken the competitiveness of our exports. This contradiction between exchange rate and monetary policy and foreign trade strategy is extremely detrimental to exporting, a fact that is confirmed by the big export slump that occurred during the first quarter of this year. Thus, relying on high-volume importing and exporting to develop foreign trade is totally unrealistic.

Fifth, the goal of the coastal development strategy is to transform internally oriented economy into externally oriented economy and to use export-led growth to spur industrialization and economic development. However, as argued above, processing industry that consumes much energy and many imports has limited forward and no backward linkages and little income elasticity of demand, so it is very doubtful that we can use this

industry to drive the development of our overall economy. Furthermore, China is a large nation of 1.1 billion people, the basic needs of her populace remain unmet, so emphasis on export-led growth is bound to entail sacrifice of domestic consumption, and excessive export of raw materials, energy, and agricultural produce will certainly tighten domestic resource supply and exacerbate bottlenecks and inflation, thereby impeding balanced development of the national economy. Such an approach, therefore, is not worth the candle. More significant is the distinction between strong and ordinary external orientation. Based on the experiences of developing countries, the former is more suited to medium and small nations, the latter to large ones. The dragons selected the export-led strategy because they have small territories and populations and because they possess the necessary funds, technology, management, personnel, skilled workers, experience in foreign trade, and other factors. China, on the other hand, has a large territory and population and basically lacks these factors, so it clearly is unrealistic for her to ape small countries (or regions) and adopt an export-led, strong external orientation. Brazil long ago recognized this point and correctly chose the ordinary brand of external orientation, a strategy that has brought her considerable success. We could learn from her example.

C. Import substitution industry [ISI] is in urgent need of restructuring and upscaling. China's ISI has developed very rapidly in recent years but remains plagued by many problems. For example, local content is too low; imported inputs are too costly and cause excessive shortage of foreign exchange; enterprises, forced to wait for materials, operate under capacity; too many industrial good production projects have been added; imported raw materials and parts do not meet specifications or fit; protectionism has undermined results; product competitiveness has weakened; domestic markets are saturated; and the like. Thus we urgently need to restructure our ISI, achieve economy of scale, coordinate foreign exchange use, increase and gradually achieve 100 percent local content, and promptly advance ISI to a higher plane or toward export substitution.

D. We should aggressively adopt an integrated, international foreign trade policy. China lacks an integrated concept of foreign trade development. We are plagued with decentralization and chaos, under which departments, regions, and enterprises all seek to aggrandize their own selfish interests; scramble for foreign exchange, investment, projects, and targets; and vie to undercut each others' prices. This state of affairs undermines national interest and is very deleterious to the development of foreign trade. Moreover, China stands all alone and is weak in international competition and lacks partners with whom to cooperate and undertake collective effort. Thus the time has come to shift strategy. Domestically, all quarters must unite and deal with the outside world as one, organize international foreign trade production and exporting conglomerates, and confront external monopoly with collective strength

and monopolistic organization. The state must play a role in this work in particular. Externally, China should join with other developing countries, adopt collective international efforts, aggressively participate in relevant international organizations and groups, use joint effort to improve the international trade environment, and create a new international economic order and trade configuration.

Footnote

1. "1988 National Economy and Social Development Statistics Bulletin," published in RENMIN RIBAO, 1 March 1989.

TRANSPORTATION

Construction Begins on Rail Line at Border

SK1010034589 Hohhot Inner Mongolia Regional Service in Mandarin 2300 GMT 6 Oct 89

[Text] Construction of a double-track line at the section linking the international railways of China, Mongolia, and Soviet Union in the Erenhot Railway Station started in mid-September. This 3.35-km-long double-track line was undertaken by our country with an investment of 2 million yuan. When construction is completed, the key section linking the international lines will have the capacity for two trains to pass through simultaneously. Cadres and workers of the third section of the engineering department of the Hohhot Railway Bureau, which is constructing the line, are stepping up efforts day and night in order to complete it as soon as possible.

Shanghai-Huangshan Mountain Air Route Reopens

OW1010012389 Beijing XINHUA in English 1528 GMT 9 Oct 89

[Text] Shanghai, October 9 (XINHUA)—After two years' suspension, the civil air route between Shanghai and Huangshan Mountain has been reopened.

From this month, the Huangshan Mountain Airport, which has been reconstructed, is able to take the BAE-146 planes made in Britain. Next April it will be able to take MD-82 planes.

In the reconstruction of the airport the runways have been lengthened from 1,800 m to 2,200 m and their surface has been changed from crushed stones to cement. The airport has also installed advanced equipment for blind landing, navigation and communications.

The China Eastern Airlines flies planes on the route every Wednesday and Friday.

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Lessons From Soviet, East European Price Reforms

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[Article by Yang Qingfa 2799 1987 4099, of the Chinese Academy of Social Sciences, World Economic and Political Research Institute: "Current Status and Trends in Price Reform in the Soviet Union and Eastern European Nations"]

[Text] In the commodity economy, prices reflect the demands of the law of value. The socialist countries have exhibited a common trend in their implementation of price reform. They emphasize developing the relationship between commodities and currency, as well as strengthening the regulatory function of the market. They have also stressed the utilization of economic rather than administrative methods of management. Therefore, the law of value must be emphasized and utilized, and price reform must be implemented.

Progress and Problems of Price Reform

Price reforms are an important component of economic reforms. Price reforms carried out in the past in the Soviet Union and Eastern Europe have stressed adjusting price ratios between products in different sectors, establishing principles for adjusting fixed prices, and improving the price structure. In comparison with the traditional system of planned pricing, this has, without doubt, been an improvement. It has helped to strengthen economic accounting and promote the system of economic stimuli. However, when measured against the objective demands of the fundamental economic reforms (whose aim is to raise social production and economic efficiency) and the establishment of their corresponding price system, the current price system falls far short of the mark, because it takes expenditure as the basis for determining the price of products. Although there are some differences from country to country, overall, the progress of price reform in the Soviet Union and the Eastern European countries have exhibited several commonalities.

I. Price Ratios Between Different Products Adjusted; Prices of Products That Have Lost Money or Earned Low Profit Raised; Benefits of the Various Economic Sectors Balanced.

1. State procurement prices for agricultural products greatly raised in order to reduce the scissors effect caused by the price differential between agricultural and industrial products, and to stimulate agricultural production. It has been calculated that the Soviet Union's state procurement prices for agricultural products have risen to 36 times their 1955 levels. Procurement prices have multiplied by a factor of 2.5 for grains, 4 for milk, and 10 for meat. In particular, since 1983 the Soviet Union has

raised procurement prices across the board (by an average of 20 percent), and raised procurement prices for products from farms which had been earning very low profits or losing money. The most recent price adjustments for agricultural products alone caused the government of the Soviet Union to pay an additional 16 billion roubles to agricultural production units, which is equal to the total of all procurement price hikes during the previous 17 years. In the German Democratic Republic (GDR), agricultural producers raised their prices by an average of 48.5 percent between 1960 and 1980. During the price reforms in 1984, subsidies for agricultural inputs were terminated, so the procurement prices for agricultural products were greatly increased. For example, the price of grains was raised by 63 percent, milk by 66 percent, and pork by 17 percent. Hungary has raised procurement prices for agricultural products virtually every other year since the reforms of 1968. Romania raised procurement prices for agricultural products by 40 percent in 1981 alone. This policy has helped to improve the conditions of agricultural production, and has thus relieved economic conflict between the state and peasants, and stimulated production.

2. Prices of Industrial Products Readjusted; Profit Margin Levels of Different Sectors Coordinated To Enhance Stimulant Effect Upon Economy. This primarily involves adjusting the price ratio between the products of the extractive industries and those of the processing industries, and improving the old, irrational price system that was based on low-priced natural resources. During their price reforms, the Soviet Union and the countries of Eastern Europe have, on the one hand, instituted fairly large price hikes for fuels and raw materials, and improved the price ratio between interchangeable products. On the other hand, they have also adjusted prices for processed industrial goods and reduced the wholesale price of certain high-profit products to a proper level. They have also placed great importance on using the price mechanism to promote development of new products and to raise product quality. Since the price reforms of the mid-1960's, the Soviet Union has raised the price of coal by a factor of 2.7, petroleum by a factor of 3.8, natural gas by a factor of 3, and ferrous metals by 90 percent. At the same time, they have lowered wholesale prices in such high-profit sectors as machine building, electronics, and chemicals. During 1967 price reforms, the Soviet Union lowered prices for products in the machine building industry by 3 percent, and in the chemicals industry by 4 percent. In 1973, wholesale prices for products from the machine building industry were again lowered by an average of 12.3 percent. In 1981 the prices of electronic products were lowered by 20 percent. In 1982, the price of polyethylene was lowered by 30 percent. The GDR raised the price of coal, steel and basic chemicals by 70 percent in 1964. In 1976, the prices of petroleum, electricity, and fuels were raised by factors of two or more. Other countries, in adjusting the prices of their industrial products, have also raised the prices of energy resources and primary industrial products by relatively large amounts. They have done so

in order to balance profit levels in different sectors. This also helps to bring about more rational utilization of resources.

II. Production Cost Accounting Improved and Principles for Price Setting Revised To Aid National Economy in Developing Toward Intensive Production.

Costs form the foundation of price. They represent 80 percent of the factory prices of industrial products. The rest is enterprise profits and state taxes. In order to make prices play their role in economic management, the Soviet Union and the countries of Eastern Europe have all improved production cost accounting and revised price-setting principles in order to make them adapt to the necessity of developing toward intensive production. The main measures connected with improvement of cost accounting include improvement of the structure of expenditures in production cost, and formulating a revised uniform method of cost classification, as well as standards for their calculation. For example, during its 1967 price reforms, the Soviet Union stopped classifying as costs the bonuses of enterprise technicians and employees, losses from employee housing and public utility operations, and interest on loans. Enterprise profits were used to offset these expenses. In order to make rational use of natural resources, they decided to take the social expenditures on mineral exploration, forest renewal, and environmental protection, and gradually categorize them as production costs of various relevant products. They also decided to charge industrial enterprises water use fees. Later, they also reclassified as production costs expenses incurred in training highly skilled labor in order to conserve labor resources, which were becoming more scarce every day. The German Democratic Republic, during its price reform in the mid-1960's, strengthened the method of fixing norms used in its cost accounting. They used equivalent work norms and uniform wage standards, and calculated labor costs on the basis of a product's labor input norms. They calculated material costs on the basis of raw material expenditure norms. As for products which used imported material, their production costs were calculated on the basis of foreign trade prices in order to reduce or eliminate subsidies for foreign trade. They reclassified research and development expenditures as production costs. They changed the way they handled fines for breach of contract and defective goods by using enterprise profits to meet these expenses instead of classifying them as product costs.

With regard to the principles for price formation, the old cost-based pricing was replaced by funds-based pricing, or a mixture of the two. This meant primarily that the proportion of profit in the price of any product was no longer determined on the basis of production costs, but on the basis of production funds of the unit which manufactured the product. Thus, the rate of profit on funds replaced the rate of profit on costs. During the 1967 price reforms, the Soviet Union set the profit norm for industry at 15 percent of production funds, of which 6 percent was to be used for fund payment (state taxes).

The remainder was used primarily as enterprise economic stimulant funds. At the same time, they took into account the difference between the organic components of the fund and the production, and the fact that there are discrepancies between different sectors' profit norms and fund payment rates. Bulgaria and the GDR switched to fund-based pricing during their price reforms in the mid-1960's. This type of price formation principle helps in making rational use of production resources, and in lessening the occurrence of the unhealthy practice in which enterprises pressure the state for investment. Hungary's dual track pricing system combined two different methods. The proportion of a product's price, which constituted profit, was based on a dual standard: production funds and wages. They felt at the time that the dual track pricing method helped to make rational use of these two resources. They felt this system was superior to the traditionally defined production price, because it possessed the strong points of the production price while avoiding the shortcoming, whereby certain enterprises occupied unequal positions due to the fact that their production was fund-intensive to different degrees. Czechoslovakia switched to dual track pricing in 1967, then switched to fund-based pricing in 1977 in order to accelerate the replacement of human labor by mechanized labor (and relieve the labor shortage).

III. Price Management Decentralized, Price Oversight Strengthened.

The type of price management system to be implemented depends on the nation's economic system. After the economic reforms of the 1960's, price management systems in the Soviet Union and the countries of Eastern Europe took three forms. The first was the Soviet-style primary adherence to planned prices. The second was the Yugoslavian style of relying primarily on market prices. The third model, that of Hungary (in which a mixture of planned prices and market prices was implemented), was halfway between these two. The practice of price reform has shown that their common trend is toward decentralization (to different degrees) of authority over price management; increased flexibility and responsiveness of the price system; and strengthened price oversight. These methods are intended to assure thorough implementation of the state's policy on prices and strategy for development of the socialist economy.

In recent years, the Soviet Union, Bulgaria, and the GDR, all of which had implemented centralized, planned management, have one after another made adjustments to their longlived planned pricing methods. They have used contract prices or free prices in the sales of some products in order to expand the operating autonomy of enterprises. The Soviet Union has adopted a temporary price system for some commodities with added quality or usefulness in order to spur enterprises to improve their products and expand production of new products. They have implemented contract prices, based upon agreement between industrial and commercial enterprises, when test products or especially popular products are involved. Bulgaria has implemented unified

leadership and level-to-level management of its price system. Thus, they have defined the price-setting authority and management scope of management agencies at all levels on the basis of the social and economic significance of the commodities and services. Under this type of system, the enterprise is the grassroots organization among the price management organs, and it is responsible for determining the price of some commodities and services of secondary importance.

Yugoslavia has implemented an autonomous pricing system based primarily on market prices. Enterprises (united labor organizations) are the primary participants in price formation, and they directly determine the prices of products through autonomous consultation among themselves. Under this type of system, basic-level united labor organizations have authority to determine independently the prices of their products and services. They take the initiative to guide the state price policy and coordinate price relationships by means of socialist contracts. The various labor organizations and industries determine prices through consultation, and thus constitute a check upon each other.

Hungary and Poland have implemented a mixture of planned and market prices. They use multiple pricing methods, including officially set prices, consultative prices, and free prices. Enterprises now enjoy rather broad price-setting authority. Free prices were used for 82 percent of Hungary's industrial products in 1982. Contract (consultative) prices were used for 70 percent of Poland's commodities and services in 1986. They are moving toward an ever more diminished proportion of state-determined prices, and a corresponding expansion of price-setting authority for enterprises.

The decentralization of price management authority has prompted the Soviet Union and the countries of Eastern Europe to strengthen oversight of price work. The more a nation has decentralized price-setting authority, the more it needs a system of strict price oversight. Yugoslavia passed the "Law on Price Formation and Socialist Oversight" in 1967, which stipulated that the state would use various types of economic measures (distribution of national income, money supply, credit, taxes, foreign trade, and foreign exchange) to indirectly influence price formation, and the state could undertake direct intervention when price policy was severely violated, during times of market chaos, and in situations in which the people's livelihood was threatened (including price freezes, price registration, and setting maximum and minimum price levels). In 1972, a new "Law on Prices and Socialist Oversight" was passed which emphasized broad socialist oversight and set forth specific sanctions for various illegal activities.

Hungary has adopted a price oversight system with multiple levels and forms. Its State Materials and Prices Bureau exercises unified leadership over and coordination of the nation's price oversight and investigation. The work of pricing organs at every level is complemented by self-oversight on the part of enterprises. In

addition, consumer groups, labor unions, commercial unions, and cooperative organizations also participate in price oversight. Hungary also takes care to control free prices. A reporting system has been instituted for price hikes on certain commodities. Hungary has adhered to coordinated use of both decentralization and management. The Soviet Union and the countries of Eastern Europe, which have implemented planned pricing, have all instituted systems of price oversight and investigation in order to achieve state price policy objectives, and prevent and punish violations of price discipline. Apart from specialized price organs, there are governing organs at every level, fiscal organs, and some social organizations which also participate in price oversight in accordance with the law.

IV. Links Between Domestic Prices and International Market Prices Strengthened in Order To Promote Progress in Production Technology and Expand Foreign Economic Relations.

With scientific and technological progress, social and economic development, and the expansion of foreign trade, the Soviet Union and the countries of Eastern Europe have, in the course of economic reforms, strengthened the link between domestic prices and international market prices. The first country to establish this link was Yugoslavia, followed by Hungary and Poland, and later other countries also adopted measures in this regard. Yugoslavia began to adjust domestic prices on the basis of international market prices following its 1965 economic reforms. This action was based on the following principles: 1) The price of all foreign trade products were to be based on prices in the international marketplace (primarily referring to Western markets capable of providing foreign exchange). 2) The price of domestic products and some import-dependent products were calculated on the basis of import prices (import price = purchase price on international market + customs duties). 3) the price of products sold both domestically and abroad were calculated on the basis of export prices (export price = income from export product - export subsidies). 4) It was only with products produced and marketed domestically that the "cost recovery principle" was retained. According to this method, price was determined by taking the production costs and adding a certain profit margin. The result was that industrial products whose prices were determined on the basis of international market prices accounted for 67 percent of total industrial output. Hungary determined in 1968 during price reforms that the domestic price for some products would be based on their corresponding international market price. For example, the set price of some products (some metallurgical and lumber products) whose manufacture depends primarily on imports of raw materials from countries in the Council for Mutual Economic Assistance (CMEA) would be based upon CMEA contract import prices. The price of any product whose manufacture depended primarily on imports of raw materials from capitalist countries (as is the case with products in such sectors as nonferrous metals and

leather goods) would be based upon import prices in Western markets. The raw material sources for some sectors (chemicals, for instance) are quite varied, including imports from capitalist countries, imports from CMEA countries, and domestic output. The prices of these products were set by a trade-off method. The prices of their products were based on the average value of the three different pricing systems. Later, Hungary further strengthened the link between domestic prices and international market prices. In 1980 they began to use the competitive price system. This occasioned the following major changes: 1) In order to improve the international competitiveness of enterprises, the domestic price of energy resources and raw materials would be determined on the basis of nonruble import prices. 2) The domestic price of industrial finished goods capable of being exported would be determined on the basis of nonruble export prices. Poland expanded its use of prices in foreign trade transactions in formulating domestic prices for imported raw materials.

Foreign trade occupies an important position in Bulgaria's economy. How to correctly handle the relationship between domestic prices and prices on the international market is an issue which is always of great concern in theoretical circles as well as among organs actively engaged in business. In its price reforms of the early 1970's, Bulgaria brought forward a plan to gradually link domestic and international market prices, and to strive to see that the influence of international prices would be reflected in domestic price formation. Regulations concerning economic activities which took effect in 1987 further stipulated that wholesale commodity prices would be formed upon the basis of international market prices, which carry representative significance vis-a-vis these commodities. The Soviet Union, which is sticking to the planned pricing system, in principle still carries out a policy of separating domestic prices from international market prices, but it uses import prices as the basis for setting prices for some unimportant import products, such as coffee and fruits. In the last two price reforms, price hikes for energy resources and raw materials to a certain extent signified an effort to make these prices gradually approach levels on the international market. A price reform currently being drawn up in the Soviet Union will strengthen the link between domestic and international prices in order to make them more responsive to the demands of expanded foreign economic relations and increased production and economic efficiency.

In summary, past price reforms in the Soviet Union and the countries of Eastern Europe have placed relatively high importance on changes in costs in adjusting the price ratios for various products, and in improving price formation principles. They have sought to bring parity to the profit margins of different sectors and thereby enhance their economic stimulant effect. However, they neglected to make use of such factors as value and the relationship between supply and demand. The current price systems are still incapable of meeting the needs of

economies developing toward intensive production, or of scientific and technological progress. This presents the following main problems:

1. Consumption-based prices (whereby factory prices for industrial products and procurement prices for agricultural products are determined by taking costs and adding profit) do not induce lowered consumption in the production process, nor do they encourage technological innovation. In a seller's market (economic shortages), manufacturing enterprises need not worry about a lack of buyers for their products. They do not care enough about reduction of raw material consumption, technological innovation, or reduction of human labor, because price changes for a given product hinge upon the level of consumption. To this is added the fact that the proportion of profit in factory (or procurement) prices of various products has been based on costs or production funds. This has been beneficial to precisely those sectors or products with high levels of consumption. It is apparent that this does not square with the overall interests of societal development.

2. The task of balancing supply and demand in the marketplace is not included in price formation principles. A serious "inversion" of basic food prices exists in most countries. This not only adds to the burden of state fiscal expenditures on subsidies, it also fails to alter the shortage of this type of commodity. Soviet subsidies for retail food sales alone amounted to approximately 60 billion rubles in 1988, or 14 percent of the state budget. The situation is worse in some countries of Eastern Europe. Poland's food subsidies in 1986 amounted to between 700 billion and 1 trillion zlotys, or 19.4 percent of the state budget. It also handed out 554 billion zlotys in subsidies for agricultural production, or 36.7 percent of net agricultural output value. Hungary's fiscal subsidies for all economic units in 1986 accounted for 30 percent of the state budget, or 50 percent of all profits turned over to the state by enterprises.

In economic conditions where everything is in short supply, price rises are accelerated when prices are freed, which fuels inflation and endangers social and economic reforms. Yugoslavia's annual inflation rate stood at 10 percent in the 1960's, rose to 16.8 percent in the 1970's, and shot quickly upward in the 1980's, reaching 78 percent in 1985 and exploding to 167.4 percent and 250 percent in 1987 and 1988. This led to an aggravation of social and economic conflicts. When Hungary first began to liberalize prices in the 1970's, it had negligible inflation. In recent years, as prices have gradually been liberalized, the inflation rate has risen rapidly, reaching 20 percent in 1988. Poland's inflation rate in 1985 was 15 percent, but had risen to approximately 74 percent by 1988. On the other hand, prices have been basically stable in countries which carry out planned pricing systems, and the inflation rate has been low. In the Soviet Union, for example, commodity prices have risen by an average of 42 percent over the past 15 years. During the past 8 years the average annual rate of inflation has been approximately 6.5 percent (and it is

tending upwards, reaching 8.4 percent in 1988). This shows that the freer prices are, the more serious price rises and inflation become. To be sure, liberalization of prices is not the fundamental cause of inflation, but it does add fuel to the fire.

Concepts and Future Trends in Price Reform

Previous price reforms failed to smooth out price relations or make enterprises more vigorous in spite of such measures as price adjustments and decentralization of authority. In view of this fact, the Soviet Union and the countries of Eastern Europe have all placed high priority on price reforms in the economic reform programs (whose goal is to increase the economic efficiency of socialist production and accelerate scientific and technological progress) which they are currently carrying out. With an eye to this purpose, they have each brought forward their own concepts on reform, and have prepared the theoretical, social, and economic conditions for fundamental reforms. Judging by the reform concepts which have been brought forward, and by the progress of events, it appears that the three currently existing models of price systems will become more and more similar as time goes by. The general trend is toward a strengthening of market mechanisms and of the regulatory effect of the law of value. However, due to differing conditions and different theoretical understanding, the course of price reforms, and concrete measures taken therein, will exhibit different characteristics from country to country.

I. Choice of Price System Model

As economic reforms have progressed, the three currently existing price system models have changed. In general, it has become rare for anyone to argue in favor of making planned prices with centralized control the target model of price reforms. Current debate and controversy over reform centers primarily on the question of whether the mixed price model or the free price model should be chosen. Those in favor of free prices feel that this type of price system meets the development needs of the socialist commodity economy, and that only when enterprises wield decisionmaking authority over prices will they truly be able to engage in competition. If one denies that enterprises are price-setting entities, price movements will be divorced from the enterprises' economic interests and will not help to invigorate enterprises or bring into play the business enthusiasm of labor cooperatives.

Those who favor mixed prices feel that, in a socialist commodity economy, the plan and the market are an integrated whole, that the two are mutually complementary, and that they work together to assure that the socialist economy will function efficiently. Planned prices, contract prices, and free prices all have an appropriate sphere in which they can be used, and they embody the organic union of the planning mechanism and the market mechanism. On the other hand, neither planned nor free prices alone are capable of meeting this

need. These people also believe that the relative importance of these three types of prices can change as social and economic reforms deepen. It is apparent that more profound theoretical study and further reform experience is needed before we can resolve the question of which model of price system best meets the development needs of the socialist commodity economy, and which will give it greater vigor.

II. Deepening the Concept of Price Reform

The Soviet Union's "Basic Principles for Fundamental Reform of Economic Management," which was passed in June 1987, proposed that "the fundamental reform of price formation ought to be the most important link in the reform of economic management." It also set down certain principles regarding the program and basic content of price reform. Soon thereafter a resolution entitled, "Concerning the Basic Direction of the System of the Price Formation System Under the New Economic Mechanisms." This resolution brought forward the basic goals and plan of the price reform that will be implemented in 1990. These two documents emphasized that "under the new conditions of economic management, we must resolutely eliminate the notion that price formation does not exert sufficient influence upon management of the national economy. We must make prices become an effective tool for increasing the efficiency of socialist production, developing economic methods of management, strengthening economic accounting, and improving fundraising." In order to achieve this, "there must be consensus support for reform of the price mechanism—wholesale prices, state procurement prices, retail prices, and all kinds of fee ratios. Furthermore, "it must be carried out as soon as possible." In fundamentally reforming price formation, we ought to undertake a comprehensive revision of prices and fee ratios, and assure that "there will be organic links" among them. The resolution also stated that "prices must thoroughly reflect the necessary social expenditures that accompany a product's manufacture and marketing, the usefulness of a product, its quality, and that portion of demand which is capable of paying for the product. Prices should be made to discourage expenditures, and they should play a stronger role in accelerating scientific and technological progress, improving product quality, and conserving resources." Soviet authorities have also stated repeatedly that the revision of retail prices and labor and service fees should not harm the standard of living of the great majority of the people, and it should raise the standard of living of certain categories of people and more fully achieve a just society.

In order to deepen economic reform, Poland announced its "Policy Principles on Prices and Income" in November 1987. This was conceived of as a price reform whose goals would be achieved in one fell stroke. This program called for: the achievement in 1988 of market equilibrium for consumer goods; a massive lowering of subsidies; and to allow the overall price index to rise by 110 percent. However, this program was rejected in a November referendum. The Polish authorities were

forced to slow the pace of price reform, yet they did not give upon their guiding philosophy of allowing large price hikes. Because commodities were in short supply, enterprises busily raised prices in order to increase income, which touched off a round of wild price hikes and aggravated inflation. Presented with these circumstances, Poland formulated a two-year plan for economic adjustment which stipulated that the basic goal in 1989 and 1990 was to drastically lower the rate of price increases and to control inflation. It also emphasized that "economic reform is a long-term process, and should not be pushed too quickly."

Hungary advocates continued liberalization of prices. Since late March 1988, free prices have been in effect with everything except some principal commodities and public utilities. Yugoslavia, seeing that free prices aggravate inflation, now states that continual increases in the efficiency of enterprise management is a prerequisite for price reform, and now more importance is being attached to adjustment of the economic structure.

Countries which began relatively late with price reform currently place highest importance upon price ratios among different products. They are creating the necessary theoretical and material conditions for future fundamental reforms. Czechoslovakia adjusted wholesale and state procurement prices early this year. "The primary goal is to make prices reflect society's actual average expenditures so that labor force and reproduction of the various production funds can be sufficiently compensated." The first step in price reform is to adjust the price ratios between various products while basically preserving original overall price levels. The object of this price adjustment is to "provide a level playing field for capital-intensive and labor-intensive production sectors, which will induce the replacement of labor by technology." As social and economic reforms deepen, they "will enter a new stage in which domestic prices gradually approximate the necessary social expenditures which are recognized in markets abroad." The GDR, which adheres to a system of planned prices, continues to carry out a policy of low prices for basic necessities. The head of the GDR Academy of Social Sciences, L. Holt, stated in his article "Social Welfare Policy, Prices, and Subsidies" that "prices for food, water, and electricity have not changed in the GDR for 30 years, a fact which is highly praised by everyone. Rents are about three percent of income, and education and medicine are completely free." Currently, "50 to 60 billion marks are used every year for price subsidies," which the GDR "is fiscally capable of supporting."

III. Trends in Price Reform

It becomes apparent by examining current reform concepts that fairly large changes are going to happen to the three current price system models in the Soviet Union and the countries of Eastern Europe. The trend in Soviet price reform is toward: a contraction of the scope of the state's centralized price setting; an expansion of price setting authority for enterprises (united companies); and

implementation of a mixed price model including state prices, contract prices (consultative prices), and autonomous prices. However, in view of the fact that price reform "is not only an economic issue, but also a most sensitive social and political issue," the Soviet Union has adopted a cautious attitude regarding reform. They are striving to avoid losing control over prices (as occurred in Yugoslavia and Poland) in order to gain the understanding and support of the people. Some famous East European economists have stated that, in the face of commodity shortages and inflation, if price reforms are slipped hastily into gear and state subsidies for various basic necessities and severely curtailed, serious price rises would be inevitable and would lead to popular discontent and social instability. Therefore, they advise that price reform should be slowed down and postponed, and that efforts for the moment should be concentrated on rectifying the social and economic environment so as to create the necessary conditions for fundamental reforms. Soviet authorities have accepted this advice and have already adjusted the pace of price reform.

With regard to concrete price reform measures, the Soviet Union has adopted a program of "adjusting first and liberalizing later." That is to say that the principal object is to first adjust the irrational price system. The various categories of product prices and fees should be treated as a unified system in carrying out adjustments. These adjustments should be executed in the following order: procurement prices for agricultural products, wholesale prices for industrial products, retail prices for consumer goods, and fees for labor and services. Later, after supply and demand in the marketplace has begun to move toward equilibrium and the state has strengthened its macroeconomic controls, it will be possible to liberalize prices in a planned manner, and the price setting authority of enterprises can be expanded. The First Deputy Chairman of the Soviet Union's State Committee on Prices, A. Komin, stated that price formation should be the function of the market, and that they ought to expand the use of contract prices and lead the irrational price system out of its blind alley as soon as possible. But what type of program should be adopted in order to achieve this goal? There appears to be two different ones. One method would first adjust those prices that are controlled by the state, and then liberalize prices, i.e.—only after relationships between various prices are smoothed out can authority to set prices be handed over to enterprises, thereby forming, between supply and demand, an elastic price system. Another method would grant price setting authority to enterprises right now, and would rely on the market to overcome conflicts within the price system, and resolve imbalances of supply and demand. We have adopted the former method, because the latter would, with aggravated inflation and deteriorating market conditions, inevitably cause huge price rises, which would lead to a possible loss of control and immense social repercussions.

Precisely because price reform is such a complex issue, the Soviet Union time and again has revised various

concepts as it debates and prepares for reform. Gorbachev repeatedly stated in a report delivered at the March plenum of the Central Committee of the Soviet Union's Communist Party that "if we do not reform prices, if we do not reform the entire system of price formation, we will not be able to achieve the objectives of economic reform, and we will not be able to create a socialist market." He also stated that "for us, an extremely important issue is when and how fast we will choose to carry out price reform and price formation reform. We must consider very seriously at what time and at what speed we will carry out this work." He also clearly stated during closing remarks at this year's March plenum that "we must also use commodities and foodstuffs to flesh out the market. We have not yet taken fundamental measures to rectify the state's fiscal situation. It will take two or three years to bring about healthy conditions, and the economic and fiscal situation will be factors, as well as the entire market. Only then will we be able to broach the issue of price (reforms)." For now "we must deal with all issues connected with retail prices in a very responsible manner."¹⁴ In order to stimulate the development of agricultural production, the Soviet Union has decided to raise state procurement prices in early 1990, expand the use of contract prices, and state retail prices for basic foodstuffs will not be changed in the next two to three years. The Soviet Union is currently organizing a large group of scholars specialists, and people from various fields to do down-to-earth work to prepare for price reform. As soon as an overall program for reform has been formed, it will be revealed to the public for discussion.

Thinking and trends in Bulgaria regarding price reform are basically similar to those found in the Soviet Union. Last year, while expanding the operational autonomy of enterprises and gradually implementing a market economy, Bulgaria began to carry out some reform of its original price system. They broke away from the model of centralized control of prices by the state and began to implement a system of mixed prices that includes planned prices, contract (consultative) prices, and freely determined prices. The new price system is helping to stimulate production and circulation, and to bring the enthusiasm and initiative of enterprises into play. This will in turn help to achieve the state's plan for social and economic development. It has also had some negative effects. Some manufacturers and commercial organizations, interested only in profit, have taken advantage of certain favorable situations by arbitrarily raising prices. By doing so they have harmed the interests of consumers. In order to stamp out the tendency toward wild price hikes, Bulgaria's State Council made a timely announcement of its "Orders Concerning the Prevention of Illegal Price Hikes." These orders state that: no business unit shall enjoy the price authority which has been legislated unless it strictly obeys the law and certain normative documents; all units are prohibited from taking advantage of any power of monopoly by arbitrarily raising prices; high profits obtained through illegal price hikes shall incur fines several times greater

than their own amount (paid to the national treasury), and persons responsible shall be punished in accordance with the law. A system of strict price oversight and investigation was also established. It includes administrative audits by state organs, daily oversight by mass organizations, and the oversight of public opinion exercised by the media. Currently, Bulgaria's domestic market and the public mood are both fairly stable.

Hungary has learned from experience in past reforms that lack of success in reforms was due to "timidity and lack of confidence," and they now intend to switch to a market economy. The current leadership feels that, without a market, price reforms are doomed to failure, and when prices are in chaos there can be no real market. Therefore, the authorities have adopted a policy of strengthening the market mechanism and deepening price reform. However, after prices were raised this year on January, the government "received many letters which expressed resentment and dissatisfaction." Some people "felt that the size and scope of the price hikes were unacceptable and demanded large subsidies and increased wages." In the face of this situation, Hungary's PEOPLE'S FREE PRESS published an article which explained the necessity and significance of price hikes. The article, entitled "Price Hikes Inevitable if Production Is Not Increased," stated that "under the present conditions, the government had no other choice." It also stated that "we cannot allow equilibrium to grow worse day by day just to keep prices from changing. This would cause living conditions to deteriorate, and would widen the gap between ourselves and rapidly developing countries." It also stated that the government will accelerate work to establish a market economy and carry out reform of wages, prices, the budget, and allocation policy. "The only way to avoid continually rising prices in the future is to increase economic output. Only by truly increasing income will we be able to extricate ourselves from the predicament." In short, the trend of Hungarian price reform is toward further strengthening the role of the law of value, and the market's supply and demand relationship.

In Yugoslavia, which has adopted the market economy system, market prices turned into absolutely free prices and provided opportunities for numerous types of illegal price hikes because the federal government's macroeconomic controls were weakened. In recent years, the pace of price rises has increased and inflation has worsened, which has brought on popular discontent and numerous strikes, and plunged the society into a political and economic crisis. In order to free itself from this predicament, Yugoslavia has: given top priority to slowing the pace of price hikes and controlling inflation; demanded unity and cooperation throughout the country; is vigorously pursuing increased production and economizing while deepening reform of the economic system; and made thorough implementation of the market economy the prerequisite for stabilizing the economy and increasing efficiency. Therefore, Yugoslavia adopted the

new "three liberal's" (liberalization of prices, liberalization of imports, liberalization of foreign exchange) in May 1988, by which it intends to subject prices to the regulatory effect of the law of value and supply and demand. However, the actual results have yet to be seen.

In summary, price reform in the Soviet Union and the countries of Eastern Europe is limited by concrete social and economic conditions. It is still in its incipient stages, and the conditions do not yet exist for the implementation of fundamental reforms. Some of their reform concepts must still be improved and made concrete, and need to be tested and flushed out through actual practice. We must observe these reforms on a continuing basis and carry out comprehensive research on the subject in order to derive the lessons that will be useful to China's price reforms.

Economic Reforms Compared With Those in USSR

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[Article by Zhao Chuanjun 6392 0278 0689 of the Department of Economics of the Heilongjiang University: "The Comparison of Chinese and Soviet Economic Reforms"]

[Text] The comprehensive social and economic reform carried out by the Soviet Union in 1985 has evoked profound worldwide repercussions. Although their national conditions are different, China and the Soviet Union both practice socialism and are both in the course of reform. Especially because China's old economic system was adapted from the Soviet system, the two had great similarities. Making a careful and objective comparison of Chinese and Soviet economic reforms will be very helpful to enhancing the understanding of both Chinese and Soviet reforms. Of course in this comparison, we should not use the principles of Soviet reform to judge China, nor should we use Chinese criteria to measure the Soviet Union. All we need is to point out through the comparison similarities and dissimilarities between the two countries and their causes so as to give us some enlightenment.

I. Comparison of the Motives and Starting Points of Reforms

The motives of Chinese and Soviet reforms are basically the same, judged from main respects. As far as direct causes are concerned, the ossified traditional economic systems of the two countries have created over the years many knotty problems and contradictions in the course of social and economic development, resulting in many difficulties in social life and economic development. When China started the reform, the quality of people's living was very low—some did not even have enough to eat and wear. Chinese social and economic structures were seriously imbalanced, the financial situation was extremely tight, growth rate slowed distinctly, and the

problems of unhealthy party workstyle and social practice were becoming increasingly serious. The direct causes of Soviet reform are, as Gorbachev said: "The country began to lose momentum. Economic failures became more frequent. Difficulties began to accumulate and deteriorate, and unresolved problems to multiply. Elements of what we call stagnation and other phenomena alien to socialism began to appear in the life of society. A kind of braking mechanism affecting social and economic development formed."¹ "Domestic situation has serious latent social and political crises."²

Judged from the angle of social development, China and the Soviet Union both face the challenge of the economic development and new technological revolution of the present age. In order to reduce as soon as possible the distance between them and developed countries, keep pace with the times, and realize the strategic goals of social and economic development for this and the next centuries, carrying out a thorough reform in the social and economic sphere seems to be more urgent and necessary than ever.

Judged from the angle of the development of the social system itself, traditional Chinese and Soviet models of socialism have been challenged by current economic life both in theory and practice. The solution of many problems and difficulties requires that we adopt a new understanding and reexamine the traditional theory of socialism, update its content, add to it national characteristics, and thoroughly change the production relations that are incompatible with the development of productive forces. Only by so doing can we rejuvenate and revitalize socialism and bring into full play its superiority.

The above statements explain that the motives of Chinese and Soviet reforms are basically the same. However, there are great discrepancies in regard to the starting points of their reforms.

Judged from the historical starting point of reform, the economic structural reform of China which began after the 3d Plenary Session of the 11th CPC Central Committee was the first overall thorough reform carried out since the founding of the PRC. It had no direct and necessary relations to previous economic readjustments. It was a brand-new design and plan in regard to its nature, scale, objective, principle, and method. Because of this, we may say that the Chinese reform started from "zero." Due to the lack of experience and lessons of previous reform and the confrontation of brand-new tasks of today's reform, the Chinese reform has more of an exploratory nature and must adopt a prudent attitude. But the Soviet reform has historical continuity. Strictly speaking, the Soviet industrial and construction management reform which began in 1957 may be considered as the historical starting point of today's reform. It went through the renewed economic structural reform of 1965 and the economic plan and mechanism reform of 1979 and further developed into today's comprehensive social and economic reform. Of course, previous

Soviet reforms were carried out only to continuously readjust and improve traditional economic management system. They could not be compared to the current reform in regard to nature, goal, depth, or width, but they did create some conditions and accumulate some experiences and lessons for today's reform.

Judged from the logical starting point of reform, China first began to experiment with reform in rural areas and then carried out the reform of economic system in urban areas. With regard to the relation of logic in the reform, the Chinese took one step at a time and did not have a definite system of logical order. At first, most people thought that price was the central link and breakthrough point of reform. But as the reform developed, people began to switch their attention to the enterprise reform, thinking that an overall coordinated reform should be carried out around the enterprise reform. However, currently since the enterprise reform and other reforms as well have run into the huge obstacle of the price reform, smoothing out pricing relations and deepening the price reform have again become a task of top priority. The logic in the thinking of the Soviet reform was very clear from the very beginning—namely, the enterprise reform was the center and all other reforms were carried out around it in a coordinated manner.

Judged from the environmental starting point of reform, when they began the reforms of economic system, both China and the Soviet Union faced many difficulties and problems that needed to be resolved immediately. But in comparison, the reform environment was more tense and the reform task more arduous and complex in China. First, China had to solve the basic food and clothing problem. Second, its economic structure was seriously imbalanced and needed to undergo a "major operation" to be readjusted. Third, China had a serious shortage of resources, especially funds. In addition, its commodity economy was underdeveloped, its level of productive force low, and its economic situation always tight. The contradictions between the reform and development and between the reform and social and economic stability were very hard to eliminate. Finally, the deep-rooted concept of natural economy, feudal moral concepts formed over several thousand years, and ossified concepts formed over the years in the understanding of socialism all contributed to the negative factors in the environment of reform. When the Soviet Union unfolded its socialist economic reform in an all-round way, it did not have the basic food and clothing problem. Instead, it needed to better the quality of life and realize the strategy of acceleration of social and economic development. The Soviet Union had more resources, greater technological and material power, and higher scientific and cultural levels. Such an environmental starting point is naturally more advantageous than that of China. Of course, since the Soviet Union was the builder of traditional economic models, it must remove great ideological and theoretical obstacles in order to break and thoroughly transform such models.

II. Comparison of Reform Theories

The social and economic reform are, first of all, to make a breakthrough in and adopt a new understanding of traditional theory. It is inevitably accompanied by great development in the theory of social economy. Socialist theories formed by China and the Soviet Union in their reforms are similar in some points but different in others. The following is a comparison of the main aspects of these theories.

1. Theories concerning the development stage of socialism

With regard to the issue of the development stage of socialism, the report of the 13th CPC Congress clearly pointed out: "China is in the initial stage of socialism." It also pointed out the social and economic characteristics of this stage in China and how long it will continue. The initial-stage theory is the basis for us to understand the national conditions of China, carry out the reform and open policy, and determine the strategic principles of the four modernizations. The new party program put forward at the 27th CPSU Congress pointed out that the Soviet Union "has entered the development stage of socialism." In October 1986, at a meeting of directors of social science teaching and research institutes of Soviet institutions of higher education, Gorbachev mentioned again that the Soviet Union is a country of "developing socialism." This is a conclusion the Soviet Union reached after adopting a new understanding of socialism and its national conditions. The Soviet Union did not summarize the basic characteristics of this stage or define the historical boundaries, but it made a general description of internal and external situations at present and for sometime to come. On this basis, it also put forward the theory of reform and new thinking and determined the strategic principles of social and economic development.

2. Theory concerning the form of economy and the system of economic management

The "Resolution of the CPC Central Committee on the Reform of Economic System" which was adopted at the 3d Plenary Session of the 12th CPC Central Committee clearly stated that socialist economy is a planned commodity economy based on public ownership. Judged from the form of economy, we think that China is in the development stage of commodity economy. As far as the style of management is concerned, we have said that we will organically combine regulation by plan with regulation by market on the basis of public ownership and commodity economy, thus forming the management system of a planned commodity economy. The concrete principle of this system is: the state regulates the market and the market guides the enterprise. Not only do we not avoid the commodity economy and market regulation, we have also advocated the need to vigorously develop the commodity economy and fully utilize market regulation. At the same time, we have strictly differentiated in theory the nature of socialist and capitalist commodity economies. In the reform, the Soviet Union has

basically negated the traditional theory of product economy and raised the commodity-currency relation to a new plane. In his report to the June Plenary Meeting of the CPSU Central Committee, Gorbachev pointed out: "Based on the scientific understanding of socialism, the commodity-currency relation is organically included in the socialist economic system. Utilizing the commodity-currency relation through price and financial credit levers, considering the law of market, controlling and managing market in a planned manner, and enhancing and raising the prestige of rouble can help establish an effective counter-consumption mechanism and actually strengthen socialism." The Soviet Union admits in theory that socialist production and exchange has the nature of commodity and believes that it should fully utilize the commodity-currency relation under the prerequisite of socialist principles, but it never adopts the category of "commodity economy." The Soviet Union thinks that it should use the law of value and various economic levers to regulate the economy, but it has always avoided using the concept of "market regulation." The Soviet Union contends that the socialist commodity-currency relation has "new contents" that are different from the capitalist commodity-currency relation, that labor is not a commodity under the condition of socialism, and that socialist economy is a planned economy. However, it thinks that the contents and internal mechanism of the restructured planned economy are different from those of traditional planned economy.

3. Theory concerning ownership

China contends that in the initial period of socialism, it should establish an ownership structure which is based on public ownership and includes all forms of ownership. China should continue to encourage the development of urban and rural cooperative economy and individual and private economies. Sino-foreign joint ventures, joint management enterprises, and wholly-owned foreign enterprises are also necessary and helpful supplements to the socialist economy. The public economy includes enterprises owned by the whole people and enterprises owned by collectives. There are a variety of management styles such as integrated, contracted, share-holding, and leasing styles. State-run enterprises should implement the principle of separating two powers in the administration and management. The management of private enterprises may adopt the form of hired labor. In the reform, the Soviet Union has abandoned the past theory that collective enterprises must be transferred to state enterprises, brought up the idea of encouraging the development of individual and cooperative economies, and allowed individuals to invest in and become shareholders of cooperatives. In rural areas, the Soviet Union has begun to implement the household and the collective contract systems. In urban areas, the Soviet Union has begun to implement the enterprise collective contract system, brought up the principle of self-management in administration and management, and allowed enterprises to buy and sell excessive or

unused fixed assets. Enterprises in the Soviet Union are also allowed to establish joint ventures or cooperative management with foreign investors. Although the Soviet Union encourages the development of the individual economy, it has not yet recognized the private economy in theory. Although it allows land lease in rural areas, it has not promoted leasing and share-holding systems in the state enterprises of urban areas. Therefore, although the Soviet Union has made great breakthroughs in theory, it still has some "forbidden areas" that cannot be open up.

4. Theory concerning opening to the outside world

In the 10 years of reform, we have always considered opening to the outside world as a basic national policy, the reform and the opening up as inseparable two aspects of realizing the four modernizations, and the reform and opening up and adherence to the four basic principles as two basic points of the party's basic line. Because of this, we have advocated social and economic opening up in all directions and at multiple levels, thus forming a setup that allows gradual opening up from "special economic zones to coastal open cities and then to coastal economic open areas and inland." In the reform, the Soviet Union has also brought up the idea of opening to the outside world, holding that "in today's world, no country can assume that it can be separated from other countries economically."³ The Soviet Union has incited that it will further participate in international division of labor and develop economic and technological relations and cooperation with Eastern and Western countries. Among them, "strengthening the results of cooperation with socialist countries is of principled significance."⁴ "We should carefully and thoroughly study the experiences of our friends and use everything that is conducive and useful to the national economy of the Soviet Union."⁵ In regard to the relation between reform and opening up, the Soviet Union maintains: "The reform of economic management will increase the efficiency of our foreign economic relations. More importantly, it will open up a vast world for strengthening foreign markets by influencing the work of all departments and enterprises, the quality of products, and scientific and technological progress." This shows that although the Soviet Union also links opening up to its reform, it focuses only on foreign economic relations. Moreover, its opening is limited and emphasizes exchange and cooperation with socialist countries. Because Western countries restrict sales of advanced technology to the Soviet Union and also for other reasons, the progress of trade relations between the Soviet Union and Western countries is slow.

III. Comparison of Reform Strategies

A general review of Chinese and Soviet practices of reform shows that because their national conditions and reform ideas are not exactly the same, their reform strategies are also different.

1. Chinese reform began with the economic reform and then gradually unfolded in an all-round way in political

and social spheres. On the one hand, we adopted this reform strategy because we had to undergo a process of understanding of the reform. On the other hand, it was determined by the political and economic situations of the time. After over 30 years of isolation and ideological ossification, China was barely recovered from "the 10 years of turmoil," its political situation was barely stabilized, and its economy was in severe trouble. Under this condition, using the economic reform as the point of breakthrough, and gradually carrying out reforms of political and social spheres, centered around the economic reform strictly conformed to the national conditions of China and was the best strategy of reform. Of course, the lagging behind of reforms in political structure and social sphere can increase the difficulty of the economic reform and affect its speed and depth. Since our party set forth the task of political and social reforms in a timely manner, the economic reform has been able to gradually coordinate with political and social reforms in its course of development. With these reforms adjusting to and supplementing each other, the reform as a whole has been developing along a healthy path. The reform strategy of the Soviet Union is to carry out economic, political, and social reforms simultaneously. To a certain degree, the political reform is even placed in a more prominent position. When the reform was first started, in his report to the 27th CPSU Congress, Gorbachev put forward the program of "comprehensive reform" and "renewing society." This program includes principles of the economic reform and contents of the political reform. It also considers "democratization" and "glasnost" as the basis and guarantee of reform. The Soviet Union thinks that whether or not economic and social reforms can be carried out rapidly and achieve desired results depends on whether or not democratization can really be achieved. Only democratization can liberate thinking, "activate human factors," enable workers to become the true masters of enterprise and country, do away with the braking mechanism of economic and social development, and thoroughly change the traditional economic management system. The Soviet Union adopted this reform strategy because it learned from failures in past economic reform and drew on the experience of reform of East European countries. This strategy enables reform to form a three-dimensional structure from the very beginning, has a broad social scope, and can undoubtedly accelerate progress and achieve comprehensive results of reform. But the reform will encounter greater difficulties in its initial stage, be hard to control, and even involve greater risks.

2. China put forward the principle of carrying out the reform while opening up at the very beginning of the reform. This may be seen as a reform tactic and a characteristic of Chinese reform. Simultaneously carrying out and closely combining the reform and the open policy is also determined by the national conditions and goals of reform of China. Reform is to, first of all, change people's thinking and concepts, liberate their minds, and broaden their horizon. For this we need to adopt a new understanding of the world and to open up. Reform is to

vigorously develop the commodity economy and revitalize the economy. For this we need to change the closed and isolated situation of natural economy, enable the Chinese economy to march toward the world, and build an open economic system. Reform is to abandon outdated and backward management methods and styles, adopt modernized scientific management methods and means. For this we need to learn from the outside. Reform is to accelerate economic development and raise the material and cultural living standards of the people. For this we need to open up because China suffers from a shortage of resources and funds and a low scientific and technological level, and needs to carry out wide-range exchange and cooperation with the world. Without opening up, our reform will not be thorough enough to succeed. By the same token, without reform, opening up will be absolutely impossible. The Soviet Union, however, did not put the reform and opening up in the same position. Instead, it attached great importance to the relation between the reform and the strategy of acceleration. "The Basic Provisions for Radical Restructuring of Economic Management" which was adopted at the June Plenary Meeting of the CPSU Central Committee made very clear the purpose and main theme from the very beginning: "The primary task of the party and the people throughout the country, which was set forth at the April Plenary Meeting of the CPSU Central Committee (1985) and adopted at the 27th CPSU Congress, is to accelerate the social and economic development of our country, resolutely reverse unhealthy tendencies in the economy, and open up a vast world for the development of the initiative and creativity of the masses and the real revolutionary transformation of society." Gorbachev also pointed out: "The communist party critically analyzed the situation formed before the mid-1980's and formulated a principle based on the idea of reforming and accelerating the social and economic development of the country and improving all aspects of social life."⁶ "Reform is to overcome the stagnation process, break down the braking mechanism, create a dependable and effective mechanism for the acceleration of social and economic progress and give it greater dynamism."⁷ This shows that the reform and the acceleration strategy are now the primary task of the Soviet Union. Combining the reform and the acceleration strategy may be seen as a tactic of the Soviet reform. Through the reform, the Soviet Union will break down the braking mechanism and build the accelerating mechanism, thus realizing the acceleration strategy. "Accelerating the social and economic development of the country" will in turn "open up a vast world for the real revolutionary transformation of society." Reform is the prerequisite and guarantee for realizing the acceleration strategy whereas the acceleration strategy will create a favorable social and economic environment for the reform. Then, what is the acceleration strategy of the Soviet Union? "The basic Provisions for Radical Restructuring of Economic Management" states: "The CPSU Central Committee pointed out that according to the resolution of the 27th CPSU Congress, it has formulated and is implementing a new structure and investment policy in the main sphere of society—the

economic sphere. This is to concentrate the use of manpower and funds on the development of social spheres and the main aspects of scientific and technological progress to vigorously improve the efficiency of production and the quality of products." On the one hand, the Soviet Union has carried out reforms in an all-round way in social and economic spheres. On the other hand, the Soviet Union has devoted to speeding up the tempo of the acceleration strategy, combined the full use of existing potential with the use of reform results, and combined the solution of current concrete problems with those of system problems. This tactic is conducive to handling the relations between the reform and development, and between the reform and social and economic stability. It can help avoid the pessimistic tendency of relying on the reform for everything and is conducive to the transition between old and new systems and to the transfer of formulas.

3. In the course of reform, China actually adopted a gradual, one-step-at-a-time tactic favoring small-scale coordination. In the beginning of the reform, our reform ideas and goals were not very clear or definite, and people were still debating over the point of breakthrough and the central link of the reform. Our practice is to start the reform with issues that most need solution and then use the method of small-scale coordination to solve problems arising in the course of reform. We adopted this tactic because we do not have experience in the reform and because the situation is relatively complex in China. We adopted this tactic in order to prevent excessive social and economic vibration, match the psychological and economic ability of society, and at the same time avoid committing major policy errors. Of course this tactic will cause the reform to progress slowly, reduce the coordinating effect of the reform, and create contradictions between the reform and development. Difficulties currently arising in our reform have explained this point. The Soviet reform uses the tactic of large-scale comprehensive coordination centered on the enterprise reform. After the 27th CPSU Congress and over 2 years of reform preparation, the 1987 June Plenary Meeting of the CPSU Central Committee adopted a general program of reform the "Basic Provisions for Radical Restructuring of Economic Management" and the "Law of the State Enterprises (Integrated Complexes) of the Soviet Union." Shortly after, it adopted eleven resolutions concerning the economic reform. The "enterprise law" of the Soviet Union mapped out the basic rules and standards of enterprises and spelled out reform goals in definite and concrete terms. Considering the enterprise reform as the starting point and basic link of the overall reform meets the internal logical demand of the reform. Just as Gorbachev said: "The major economic process starts from here; material wealth is created here; and scientific and technological ideas are materialized here. Economic and social relations are established exactly in labor collectives and the people's interests—individual, collective, and social interests—are interwoven here."⁸ Of course, since the Soviet reform has just entered the enforcement

stage, what kind of effect this reform tactic will finally produce needs to be tested by practice and history.

IV. Comparison of the Models of Reform Goals

China and the Soviet Union have basically formed goal models of their own characteristics in the reform. The report of the 13th CPC Congress drew the basic outline for the goal model of economic management structural reform in China, and the June Plenary Meeting of the CPSU Central Committee and its resolutions essentially established the socialist modern economic model that suits the development of the current stage of the Soviet Union. The following is a comparison of Chinese and Soviet goal models in three aspects:

1. Comparison of economic movement mechanism

The report of the 13th CPC Congress points out: "Generally speaking, the new economic movement mechanism should be the mechanism of 'the state regulating the market and the market guiding the enterprise'". This goal model of the economic movement mechanism of China indicates that the macrocontrol of the economy by the state should be exercised through the market and that the production and management activities of enterprises should be centered on the market. The market will become the axis of economic movement, the joint of macroeconomy and microeconomy, and the regulating valve of state, enterprise, and individual interests. To guarantee normal and effective economic movement, we must have the following three conditions: (1) market functions should be complete, structure rational, system complete, and signal system accurate; (2) The means of macroeconomic regulation and control should be coordinated, regulatory and control functions complete, and information feedback quick; (3) enterprises must have sufficient decisionmaking power in management, fair competitive environment, equal competitive opportunity, and the ability to react quickly to market changes. For this, our party set forth the task of speeding up the pace in building and cultivating the socialist market system, reforming and strengthening the means of macroeconomic regulation and control, and further improving the enterprise management mechanism. This economic movement mechanism is one that organically combines the regulation by plan with the regulation by market on the basis of the commodity economy. It is the main content of the management system of planned commodity economy which will be formed by the state by switching from direct management to indirect management.

The goal model of the economic movement mechanism of the Soviet Union may be summarized with a quote from the "Basic Provisions for Radical Restructuring of Economic Management": "The essence of the radical reform of state economic management is a change from a predominantly administrative leading method at all levels to a predominantly economic leading method, a

change to a management system based on and implemented through interests, and a change to broad democratization of management and vigorous mobilization of human factors." This summary and the reform theories and plans of the Soviet Union show that the new economic movement mechanism which the Soviet Union wants to build is very similar to the goal model of our economic movement mechanism. In other words, macroeconomic regulation and control should use mainly economic means and indirect methods, and microeconomic management should use market as the basic guidance. The Soviet Union avoids using the concept of "market regulation," but in fact it uses the "commodity-currency relation" to replace the concept of market. The commodity-currency relation which the Soviet Union wants to use is actually the same as the commodity market. But the market the Soviet Union wants to use has a definite boundary and precondition. First of all, such market does not include labor market or stock and security markets. Second, such market, including money and major capital goods markets, is organized and controlled by the state. Finally, when using the market, enterprises must use the state plan as a guide, economic quotas as a restricting condition, and socialist principles as a criterion. Therefore, the market that the Soviet Union wants to use is a limited one. The economic movement mechanism that the Soviet Union wants to build is actually the following: The state regulates limited market and the market gives limited guidance to enterprises. Of course, this is a generalization we made after analyzing the reform theory and overall reform plan of the Soviet Union. The Soviet Union itself does not describe it like this.

The above comparison shows that the common ground of the goal models of Chinese and Soviet economic movement mechanisms is: they both insist on managing mainly with economic methods and using market mechanism. The difference is that the Soviet Union puts more restrictions and preconditions on the use of market (namely what the Soviet called the commodity-currency relation).

2. Comparison of regulation and control mechanism

Economic regulation and control mechanism is a necessary and sufficient condition for realizing the economic movement mechanism. It mainly includes planning, financial, monetary, pricing, and wage mechanisms. Although Chinese and Soviet economic regulation and control mechanisms are still being reformed and improved, the basic framework of their goal models has taken shape.

The goal of the reform of Chinese planning system is to carry out planning on the basis of commodity exchange and the law of value, gradually reduce the scope of command plan, and practice indirect management through guidance plan and various economic levers. The goal of the reform of Chinese financial system is to establish a financial system that separates central and local management, implements separate tax systems,

charges the use of revenue funds (for the purpose of production and management), and gives full play to the regulatory role of taxation. The goal of the reform of our monetary system is to completely separate treasury and banking departments, use the central bank as the regulatory and control center, put specialized banks under enterprise management, and build and develop a complete money market system. The goal of the reform of our pricing system is to gradually decontrol market prices while smoothing out price relations, give enterprises sufficient pricing power commensurate to their management decisionmaking power, have the state control only the overall price level and the prices of a few commodities, and establish a limited or indirect link between domestic and international prices. The goal of the reform of our wage system is to have the state control the wage bill and the increase rate of wage, establish a link between wage and enterprise management results and workers' labor contribution, and appropriately link wage to prices. The goal of the reform of our material supply system is to basically decontrol the market of the means of subsistence, gradually decontrol the market of the means of production, and have the state control only a few important and special goods.

The above may be seen as the basic direction of the reform of Chinese economic regulation and control mechanism. Although some issues are still being discussed, the state has established the basic ideas of the reform and the tendentious opinions of most people have become clear. All we did was make a generalized summary based on this.

The goals of the reform of Soviet regulation and control mechanism are reflected mainly in the "Basic Provisions for Radical Restructuring of Economic Management" which was adopted at the June Plenary Meeting of the CPSU Central Committee and the eleven relevant resolutions which were adopted later. These documents indicate that the goal of the reform of Soviet planning system is to abandon in principle the command-style planning method and use economic levers to exercise the planned management of the national economy through the methods of controlled statistics, long-term stable economic quotas, state procurement contracts, and limited economic norms. The goal of the reform of Soviet financial system is to challenge, through economic quotas aimed at the end work results and financial criteria, enterprises to use revenue funds rationally and effectively guarantee stable financial income, reduce free budget appropriations for capital construction, have enterprises raise their own funds, and strengthen the regulatory role of taxation in economic life. The goal of the reform of Soviet monetary system is to establish a two-level, central and specialized, banking system, draw a strict line between appropriations and credit funds, restore basic credit principles, and have banks implement the system of full-cost accounting and the principle of raising their own funds. The goal of the reform of Soviet pricing system is to carry out an overall readjustment of the pricing system, change the price formation

principle (namely from the "consuming" to the "effective" type), adopt three forms of prices—planned prices (state procurement contracts), contract prices (prices fixed through the negotiation of enterprises) and free prices—and gradually expand the scope of the latter two forms of prices. The goal of the reform of Soviet wage system is to implement the fixed wage fund system under which wage fund is linked to the net output value of enterprises and enterprises have the right to distribute wages on the basis of a fixed total. The goal of the reform of Soviet material supply system is to abolish the system under which most materials are distributed and transferred according to quotas and supply units are designated, gradually implement the whole-sale trade system, and establish a capital goods market.

The above shows that the goals of the reforms of Chinese and Soviet regulation and control mechanisms are both to use more of the commodity-currency relation and the law of value to stimulate the vitality of enterprises and coordinate various economic and interest relations while ensuring effective macroeconomic control. What is different is that the Soviet Union combines economic quotas and norms with various regulation and control mechanisms and enable economic activities to be guided by the market and restricted by economic quotas and norms to guarantee the quality of economic growth while creating favorable conditions for the state to exercise planned macroeconomic regulation and control. In addition, the Soviet Union has put a definite limit on the range of function of the commodity-currency relation when it uses financial and monetary regulation and control mechanisms. It has yet to raise the issue of relation between domestic and international prices in regard to the price regulation and control mechanism.

3. Comparison of enterprise management mechanism

The goal of Chinese enterprise reform is to separate enterprise ownership from management and enable enterprises to become really independent, self-managed commodity producers and managers who assume sole responsibility for their own profits and losses. For this, enterprises should have all administrative and management power necessary for self management, implement the plant director responsibility system, practice different forms of management responsibility system (such as contract, share-holding, and leasing systems), exercise independent management under the guidance of state plan, and compete with others within the scope specified by state law. Enterprises should practice full cost accounting and self-financing, assume sole responsibility for their profits and losses, and take their own risks. They are allowed to go bankrupt and to merge. Enterprise profits and individual income should be linked directly to management results.

The goal of Soviet enterprise reform is to practice enterprise self-management, which mainly include: Enterprises should practice full-cost accounting and self-financing; enterprise leaders should be elected through democratic process; enterprise profits and individual

income should be linked to the final management results of enterprises; enterprises should be given more decisionmaking power and allowed to make their own production and management plans on the basis of state controlled statistics (not command-style) and economic quotas and norms. Enterprises may practice the contract system and compete with others, but they are not allowed to go bankrupt or lay off workers.

This shows that the common ground of Chinese and Soviet enterprise management mechanisms is to introduce interest and competitive mechanisms to enterprise management. What is different is that the Soviet Union has introduced economic quotas and norms into enterprise management as a kind of mechanism used to regulate state, enterprise, and individual interests. In the competitive mechanism, the Soviet Union has eliminated the risk mechanism caused by bankruptcy. In regard to the management method, the Soviet Union has used only the interest mechanism produced by the contract, but it has never advocated the share-holding and the leasing systems.

Footnotes

1. Gorbachev, M., "Perestroika and New Thinking," the World Knowledge Publishing House, 1988 March Edition, pp 7,9.
2. Ibid.
3. Gorbachev's report to the June Plenary Meeting of the CPSU Central Committee.
4. Ibid.
5. Ibid.
6. & 7. Gorbachev: "Perestroika and New Thinking," the World Knowledge Publishing House, 1988 March Edition, pp 22-23.
8. Gorbachev: "Perestroika and New Thinking," the World Knowledge Publishing House, 1988 March Edition, page 70.

AGRICULTURE

Subsidies as Means To Stimulate Vegetable Production

40060685A Beijing JINGJI RIBAO in Chinese
20 Jul 89 p 2

[Article by Yang Jianping 2799 1696 1627: "Better Returns From Vegetable Subsidies"]

[Text] In China, vegetable subsidies are commonly known as "hidden subsidies" that cannot be abolished in the near future. This is because: first, there are two special contradictions between production and marketing of vegetables, namely the contradiction between mostly small-scale family production and the large

market made up primarily of key cities, and the contradiction between the seasonality of production and the year round nature of consumption. These contradictions cannot be solved in a short period of time. There is very great instability in the production and marketing of vegetables that requires adjustment. Second, in view of present mass consumption habits and the level of consumption, vegetables may not be priced too high; therefore, state-owned vegetable markets' use of subsidies as the main channel for evening out surpluses and shortages, and holding down prices should not only not be weakened, but should be strengthened. The subsidization of vegetable prices is a welfare policy that many countries commonly employ. In Japan, although vegetable prices are equivalent to fruit prices, the government still spends more than 26 billion yen on vegetable subsidies. This shows that vegetables are a commodity in which there is little elasticity between supply and demand, and that is very much out of the ordinary; thus, reliance solely on market regulation is unrealistic. In recent years, China has experimented several times with reform of the vegetable production and marketing system, including price subsidies. These efforts scored a certain amount of success, and also followed a tortuous road. In 1988, after the hidden subsidies for major nonstaple foods, including popular vegetables, were changed to open subsidies, vegetable prices rose. But hidden subsidies did not decrease; instead they increased. As a result we saw even more clearly the need for price subsidies.

How to better the returns from subsidies requires diligent study for solution. This is truly an important topic.

I. Review of Vegetable Production and Marketing System Reform

The hidden subsidization of vegetable prices, which is also termed "subsidization of policy-incurred losses" began in the early 1960's. That was a period of difficulty when the government obligated 500 million yuan to stabilize purchase prices and retail prices, and which also made it possible for government purchase prices to be slightly higher than sale prices, thereby looking after the interests of both producers and consumers. This policy was subsequently continued. No doubt, this was effective in stabilizing prices; however, it increasingly inhabited the initiative of producers. By the early 1980's, 1 jin of popular vegetables sold for less than 1 jin of horse hay. It became difficult to continue parity price distortions. In order to turn around this situation, at the end of 1984 and in the beginning of 1985, all jurisdictions successively removed restrictions on vegetable markets, making market regulation a part of vegetable dealings. The result of this reform was both an invigoration of vegetable production and marketing, and an enormous rise in vegetable prices. Soon, after a summarization of experiences and lessons gained in this experiment, even while upholding a reform orientation, hidden subsidies were revived in the form of subsidies to state-owned vegetable companies for regulating slack and peak season supply, and to hold down market vegetable prices. This

readjustment was not a simple restoration in the original sense inasmuch as the scale of the subsidies was greatly curtailed, being relatively concentrated in large- and medium-sized cities and on popular vegetables in season. Subsequently, as a result of an all-around rise in the general price level, vegetable production and marketing costs increased, subsidy payments by governments in all jurisdictions also increasing year by year. Beginning in May 1988, when price restraints were removed on vegetables, pork, fresh, eggs, and white sugar, the state issued open subsidies to every staff member and worker, with the goals of using market consumption at high prices to transfer subsidies to producers, thereby stimulating the development of production to bring about balance between production and marketing, and to enable the government to extricate itself from the hidden subsidy morass into which it was sinking ever more deeply. This motivation, and the orientation of this reform were desirable; the problem was that insufficient consideration was given to the special nature of vegetable commodities. Because price restraints could not be entirely removed from vegetables in practice, neither could hidden subsidies be entirely eliminated. In fact, the hidden subsidization employed in addition to the open subsidization of vegetables in 1988 was not only no less than in 1987, but increased by 210 million yuan to reach 820 million yuan.

Since 1985, vegetable production and marketing changed very greatly. The following several concepts were employed: 1) A change from state-owned exclusive dealings to dealings through multiple channels for an ensuing marked increase in market regulation and a marked change in the supply situation. 2) Reduction by half of the former volume of business by state-owned enterprises, but business by state-owned enterprises still accounted for more than half the total volume of business for the market as a whole. 3) An expansion in the area of circulation, the old pattern of local production and local consumption being replaced by a large-scale flow pattern regulated mostly by close-in suburbs, distant suburbs second, and other towns and cities. 4) All restraints were removed from purchase prices, and during peak seasons restraints were removed from market prices as well. Purchase prices rose across the board, the rate of increase for purchase prices being higher than for market prices. In Hebei Province in 1987, mixed purchase prices for vegetables doubled in 12 cities. Market prices rose 72 percent. 5) Vegetable price subsidies were fairly concentrated, most of the subsidies going to large- and medium-sized cities, and for vegetables during the slack season, as well as for several vegetables in season. During the peak season and for most tender vegetable varieties, purchase and sale prices were high. Nevertheless, subsidies still increased year after year.

During the past several years, the vegetable production and marketing system were reformed twice. Both the process and the results gave rise to two simple conclusions. The first was that until such time as special

conflicts in vegetable production and marketing are resolved, changing back and forth between the loosening and tightening of restrictions in the control system produces limited results. Second was that the role of state-owned vegetable departments as main channels cannot be lost. They act as main channels for regulating surpluses and shortages, and for holding down prices. Nor can hidden subsidies be lightly abolished. The use of appropriate hidden subsidies to supply production and commodity flow, insuring supplies for the daily life of the masses is so valuable that several hundred million yuan could not pay for it.

II. Reasons for the Repeated Increase in Vegetable Subsidies

Since 1985, state-owned vegetable business volume has decreased, market prices have risen, and deficit subsidies have increased rapidly. Why should such a disjunction occur? Very many reasons account for the stimulation of vegetable subsidy increases, but the fundamental reason remains the inequality between vegetable production and marketing. During the past several years, the vegetable growing area of many large- and medium-sized cities has dwindled. Inequitable price parities made numerous vegetable growing peasants abandon vegetable growing to work in industry or do business. In addition, prices of the agricultural means of production rose, and vegetable growing costs increased impairing production. The commodity vegetable bases that had only just begun to be built could not effectively reverse this situation. This created instability in the commodity amounts of vegetables, leading to price fluctuations and subsidy increases. These reasons aside, there were four direct reasons. First was a purchase and sale price inversion. Purchase price restraints were loosened, but market prices, especially slack season market prices, dared not be loosened. This situation in which the purchase price end was alive but the market price end was dead widened the percentage of inversion. Vegetable companies had to subsidize transportation and also had to subsidize retail shop profits on popular vegetables sold at low prices. Furthermore, retail shops frequently had to institute "monthly list prices," meaning that whatever a jin of vegetables sold for on a certain day of a certain month in the previous year, they had to sell it for on that day in that month in the current year, with very little room for fluctuation. Second was an increase in commodity circulation fees. More and more vegetables were being shipped in from outside a city or a province. In some northern provinces, the volume shipped in and out of the province amounted to more than 50 percent of sales volume for the year. Third was inadequate regulation and control methods. State-owned vegetable departments had only limited capabilities with regard to market information, forecasting, transportation, storage, and funds. In addition, their own heavy payment burden meant they had correspondingly weak resources for use in guiding prices. Fourth was the tangled use of subsidies. Vegetable companies were deficit enterprises in which designated subsidy funds could not be used for

designated purposes. Policy-incurred losses (vegetable price subsidies) and operating losses (other expenditures) were lumped together, and policy-incurred losses could be added on after the fact. This meant that subsidies for operating losses crowded out subsidies resulting from policies, so enterprises lacked internal pressure to improve their operations. Everywhere one saw work being done in a nonintensive way.

III. Suggestions on Improving Benefits From Subsidization

1. *Separation of subsidies to make up policy-incurred losses and subsidies for operating losses.* Subsidies to make up policy-incurred losses should be used only for losses resulting from vegetable price inversions, fair and reasonable cost overruns being made up out of state fund allocations. Subsidies for operating losses should be fully contracted to prod business units into the use of contracts to tap internal potential, and to improve management, supporting them in diversifying their operations while concentrating on vegetables in order to reduce losses.

2. *Everything possible should be done to curtail the range of subsidizes, focusing their use to give them punch.* Subsidies should continue to be focused primarily on large- and medium-sized cities, and key industrial and mining areas; and on some of the main vegetables in season. Stabilizing prices in large- and medium-sized cities, and of the main kinds of vegetables means stabilizing the main matters. This will play a role in holding down prices in other places, insuring basic price stability. The method of providing a little subsidy for everything everywhere in a shotgun approach is really as inadequate as trying to put out a burning cartload of firewood with a cup of water, or as ineffectual as trying to stop water from boiling by scooping it out and pouring it back. It is very unlikely to produce any results to speak of.

3. *Appropriate increase in sale prices of popular vegetables to reduce deficits.* For some popular vegetables sold in large quantities and at a great loss, consideration should be given to narrowing the difference between purchase and sale price as a feasible way of reducing subsidies. Take winter-stored Chinese cabbage, for example. Since large quantities are sold, and since it is sold for less than it is bought, the sale price has hovered around \$.03 per jin for many years. The price differential subsidy paid for this single item alone amounts to one-third of some province's vegetable price subsidy for the entire year. With an increase in both the abundance of vegetables supplied in winter and the level of urban residents' consumption, urban families are storing less Chinese cabbage over the winter. Were the sale price to be raised a little, consumers paying a little more, vegetable businesses could greatly cut their losses. Of course, such a rise in prices would have to take into account the ability of consumers to bear it.

4. *Strengthening of state-owned vegetable businesses' regulation and control methods.* This proposal includes

building more facilities, particularly improving transportation and storage capabilities to meet changes in the pattern of commodity circulation and consumption over a wide area, effectively making use of the role of evening out surpluses and shortages, and holding down prices.

5. Building of fairly large-scale wholesale vegetable markets to guide production and marketing. The greatest goal of such wholesale markets would be to provide vegetable growing peasants and retail shops with a place in which to make transactions, as well as supervision and protection; consequently the principle of a minimum profit must be used. Establishment of wholesale markets would permit producers and marketers to come together, thereby reducing the number of middlemen in the circulation chain, readjusting purchase and sale prices, and guiding the integrated development of both production and marketing for very many advantages.

One indicator of benefits from subsidies is the use of relatively small subsidies to bring about basic balance between vegetable production and marketing, the subsidy thereby stabilizing or diminishing. Behind the surface cycle of "removal of price restrictions - price rises - subsidies - a drop in prices are concealed special conflicts between vegetable production and marketing. Take the present time, for example, when inadequate availability of vegetables is the crux of the problem, the main area of conflict being in "production." When vegetable output rises, the laws of price come into play, prices dropping correspondingly, subsidies possibly stabilizing or diminishing. During the past several years, Taiyuan City has both completely contracted the amount of subsidies to vegetable companies and has energetically developed the growing of vegetables for a flourishing of both production and marketing, subsidies tending to stabilize, thereby opening the way to a benign cycle. Clearly, the first principle for improving benefits from subsidies is to promote the development of production. To suppose that the purpose of subsidies is to plug price differential holes to the neglect of their effectiveness in developing production is truly a lopsided view. The use of subsidies to support production does not necessarily mean applying subsidies directly to production. In the three links of production - wholesaling - and marketing, wholesaling is the middle link. By applying subsidies to the wholesaling link, wholesaling can stimulate both production and marketing; it can both promote production and stabilize marketing, for best possible benefit. Some cities link grain to other materials used in agriculture at the wholesaling link. Once vegetable growing peasants sell their vegetables in vegetable markets, they can obtain stable compensation, which plays a protective and stabilizing role. Retail shops can obtain subsidies on the basis of wholesale volume. This way of employing subsidies for dual purposes in a single place brings hidden subsidies out into the open to the satisfaction of the state, vegetable growing peasants, and retail shops.

Accelerating basic balance between production and marketing will require the use of various associated measures

taken simultaneously with the development of production, and increasing benefits obtained from the use of subsidies. Examples of such associated measures include the building of an organically integrated command system for production, supply and marketing that embraces market information, the study of policies, and the coordination of relations in all regards for greater macroeconomic regulation and control. Another example is the establishment of risk funds for vegetable production to deal with disaster losses, to balance production and demand in order to protect the interests of both producers and consumers. In short, this is a large issue that has to be handled with great concentration.

Agricultural Accord Signed With Mauritius

90EF0026Z Port Louis LE MAURICIEN in French
30 Sep 89 p 4

[Article by Dharmanand Dhoocharika: "Agricultural Cooperation Accord Between Mauritius and PRC Renewed"]

[Text] Mr Madun Dulloo, the minister of agriculture, fisheries and natural resources, signed an accord yesterday morning with Mr Shi Nai Liang, ambassador of the People's Republic of China. The accord is aimed at strengthening technical cooperation between the two countries in the field of agriculture.

Pursuant to the accord, which extends through 30 June 1991, the Chinese Government will put a team of agricultural experts at the disposal of the Mauritian authorities to assist with implementation of the truck gardening production project.

We would point out that the first agricultural technical cooperation agreement between the two countries was signed in September 1975. It was focused on increasing production of rice, fruits (including citrus) and vegetables.

Mr Dulloo also noted the Chinese contribution to the construction of Sir Seewoosagur Airport and the Belle Vue Mauricia stadium.

Once various agricultural diversification projects become operational, the local market will benefit from a wide range of new varieties of fresh market vegetables such as margoze, pipengaille, brede [translations unknown], cauliflower, calabash gourds, melons, etc.

Experiments are being conducted on 15 new vegetable varieties, including a variety of cauliflower. Minister Dulloo believes the new varieties will have a positive effect, both on growers' production and on household food expenses.

The Chinese technical team has helped establish a citrus orchard at Belle Vue that is already yielding limes, oranges and tangerines.

Mr Shi Nai Liang said it was a pleasure to sign an agro-food technical agreement on the occasion of the 40th anniversary of the PRC.

Hunan Hybrid Rice Area, Output

40060008A Changsha HUNAN RIBAO in Chinese
1 Sep 89 p 2

[Summary] According to statistics of the Hunan Agricultural Department, the area sown to early hybrid rice was 4,814,200 mu, an increase of 941,200 mu over 1988, gross output was 2.104 billion kilograms, and the average per mu yield was 437 kilograms.

Jiangsu Rural Savings

40060007E Nanjing XINHUA RIBAO in Chinese
27 Sep 89 p 2

[Summary] As of 20 September, rural saving deposits in Jiangsu Province exceeded 15 billion yuan, an increase of 2.64 billion yuan over the beginning of 1989, and a 21.4 percent increase over the same period in 1988. Per capita rural savings have increased from 8 yuan in 1978 to 288.51 yuan today.

Xinjiang Winter Wheat Planting 'Slow'

HK1910055389 Urumqi Xinjiang Regional Service in Mandarin 1230 GMT 17 Oct 89

[Excerpts] By 11 October about 8.4 million of land had been ploughed for sowing of winter wheat throughout the region, fulfilling the region's plan by 46 percent. And the plan for sowing winter wheat in northern Xinjiang has been basically completed. [passage omitted]

The departments concerned outlined the major problems existing in this year's winter wheat sowing. They are: The work of sowing has been making slow progress in southern Xinjiang, one-third of the land for winter wheat sowing in Kashi prefecture was ploughed slowly because of flooding, and relatively low temperature in Hotan prefecture and Kizilsu Kirgiz autonomous prefecture has an effect on progress of sowing. The aforementioned prefectures and autonomous prefectures have taken measures to accelerate the work of sowing as a bid to strive to fulfill this year's plan.

Commentary on Guiding Role of Mass Media

OW2910184289 Beijing ZHONGGUO JIZHE [THE CHINESE JOURNALIST] in Chinese
No 9, 15 Sep 89 p 1

[Monthly commentary by Jiang Shui 3068 3055:
"Adhere to the Correctly Guided Course of Public Opinion"]

[Text] Probably nobody will object when I say that news reporting must be truthful, objective, impartial, and comprehensive. However, the world is full of complexities. Those who always flaunt the "fair and objective" banner have often published distorted news reports and even fabricated rumors at times.

Although there are no precise statistics about the number of rumors that the "Voice of America" cooked up during the recent turmoil in China and counterrevolutionary rebellion in Beijing, it probably deserves to be called the "Voice of Rumors."

During that time, some newspapers and magazines in Hong Kong and Taiwan also published sensational rumors to add fuel to the fire of the turmoil on the mainland.

Mr Lu Xun once pointed out incisively: "Rumors are things that rumormongers wish to see happen, and that reflect the thinking and behavior of some people." No matter whether the rumors are fabricated by the "Voice of America" or by some Taiwan and Hong Kong newspapers and magazines, and no matter how queer the rumors may sound, they all pursue the same political aim; namely, to cheer for the advocates of bourgeois liberalization in China in a vain attempt to negate in a fundamental way the CPC's leadership and to subvert the socialist PRC. Their manipulation of public opinion is obvious. The so-called "freedom of the press" and "fair and objective reporting" are merely their facade.

It is not unusual that forces hostile to the Communist Party and socialism have always pursued such a political goal. Noteworthy in this respect is the fact that among the ranks of our socialist journalists some people disarmed themselves in the face of the offensive launched by the ideological trend of bourgeois liberalization. We should draw a bitter lesson from the erroneous way in which some press units in the capital guided public opinion during the recent struggle to halt turmoil and quell the counterrevolutionary rebellion.

Some people have invariably believed that by stressing the principle of party spirit in proletarian journalism and by stressing the role of newspapers, radio and television stations, and news agencies as the mouthpieces of the party and the government, they would be deprived of "fair and objective" reporting. This is indeed a muddled idea.

News reporting is a reflection of objective things. This reflection, which is obtained through the understanding

by journalists of objective facts, is a product of subjective views acting on objective facts. Just as the stand, views, and methods of journalists differ, so too do their understanding of objective things and the slant of their news reports. Therefore, so-called "purely objective" reporting is actually nonexistent, except for certain news which certainly does not have any political or social connotation. What counts here are correct stands, views, and methods, for these can lead to a more objective, scientific, and correct understanding of objective facts.

Our socialist journalism is an integral part of the cause of the party and of the people. We have declared our intention to take the stand of the party and of the people and to regard the interests of the party and of the people as our supreme interests. This is the principle of party spirit that we uphold. It is precisely on the basis of this principle that we persistently maintain unity with the party Central Committee and publicize the principles and policies of the party and the government. People who adhered to bourgeois journalistic views invariably covered up the political attribute of their work, basically because they did not represent the interests of the majority of laboring people, but served the interests of bourgeois politics or a certain group or political faction.

During the recent turmoil and riots, people saw clearly how different reports on the same objective fact could be caused by differences in stand. For example, with regard to the Shanghai ruffians who stopped a train and set fire to several compartments, our news reporting said that the judicial department had decided, in accordance with the law, that the ruffians were serious criminal offenders. However, in reports by some Western mass media, these ruffians were described as "national elitists" and "fighters for democracy." Which report is objective? It is not difficult for readers to make a correct judgment.

People with even a little experience in journalism know that every day there are numerous small or big events in the world and that it is impossible for any newspaper of any size to report everything. Hence, selections are made as to what should be published and how it should be published. This selection process is a kind of guidance because differences in stands can cause different choices to be made. The masses of the people complained about the students' long occupation of Tiananmen Square and about their demonstrations and hunger strike which turned the majestic square into a mess. When the 1 June Children's Day was drawing near, many Young Pioneers wrote letters to the college students in the square, appealing to them to leave so that the vast number of Young Pioneers could celebrate their own festival there. Nevertheless, the students did not leave. Thus, on 1 June, while the majority of children were unable to stage organized activities in the square, a few parents took their children to the square to "watch the fun." Should a newspaper report on the small number of children who "were having fun" in the square or on the vast number of Young Pioneers who made a strong appeal to the college students occupying the square? It would depend on whether a newspaper supported or opposed turmoil. Our

stand is clear and unequivocal: Our news reporting should select facts conducive to halting turmoil so as to foster a strong public opinion in society against turmoil.

According to Marxist epistemology, there is a difference between the appearance and essence of an objective thing. In understanding an objective thing, we should not be misled by its temporary and superficial appearance, but should see through the appearance to get to the essence. All kinds of social contradictions were interwoven during the recent turmoil, producing an extremely complicated appearance of things. What is the most essential contradiction of the struggle? As the party Central Committee pointed out at the onset of the turmoil, the most essential contradiction lies in a small number of advocates of bourgeois liberalization, who vainly attempted to negate in a fundamental way the CPC's leadership and the socialist system and to turn a promising China into a hopeless country. However, some mass media failed to expose this essence of things for a given period of time and instead reported on various phenomena that were covering up this essence. Such seemingly "objective" but actually biased news reporting caused public opinion to be guided in an erroneous way and led to serious consequences.

Practice has proved and will continue to prove that Marxism is a powerful ideological weapon for mankind to understand and by which it can transform the objective world. It is only by grasping this weapon that we can arm ourselves with the sharp vision to correctly understand and report objective things, reveal the objective law governing the evolution of things, and make our share of contributions to the progress of mankind and the cause of socialism and communism.

Scholars Decipher Ancient Yi Language

*OW0411235489 Beijing XINHUA in English
0203 GMT 4 Nov 89*

[Text] Guaiyang, November 4 (XINHUA)—The ancient language of the Yi nationality has been deciphered by two scholars in China's southwest Guizhou Province.

The 51 marks of the Yi language were first discovered in 1978 and 1979 in a group of tombs in the Weining Autonomous County of the Yi, Hui and Miao nationalities in Guizhou Province.

The marks, which are similar to pictographic characters, date back more than 2,000 years. They were found inscribed on unearthed pottery.

Wang Zhenxian, of the Guizhou Institute of Nationalities, deciphered the marks with Wang Ziyao, a translator at the institute.

Wang Zhenxian credits the breakthrough in the deciphering to his co-researcher, who was brought up in a Yi family and began to learn the modern Yi language when he was only five years old. His father is an expert in the language.

The two scholars started their work on the language in 1981. Their deciphering has shown that during the middle of the warring states period (475-221 BC) the forefathers of the Yi nationality lived in China's southeast area in a rigidly stratified slave society.

The Yi nationality is one of the minor nationalities in China and has a long history and an ancient culture.

New Regulations for Self-Financed Students Studying Abroad

*OW2810180589 Beijing XINHUA in English
1542 GMT 28 Oct 89*

[Text] Beijing, October 28 (XINHUA)—New regulations for self-financed Chinese students studying abroad will go into effect beginning on October 30 this year.

The notice was issued jointly by the General Administration of Customs, the State Education Commission and the Ministry of Foreign Affairs.

The notice is directed at self-supporting students enrolled in foreign universities or colleges.

The notice stipulates that the students should register at Chinese Embassies and Consulates with passports, letters of invitation and student identification cards after they have registered at their schools.

Students who have already been abroad for some time should also register within six months after the new regulation takes effect.

Marine Defense, Development Require 'New' Strategy

*HK2909093189 Beijing JIEFANGJUN BAO in Chinese
15 Sep 89 p 3*

[Article by Tang Fuquan 0781 1788 0356: "Reunderstanding Our Country's Naval Strategy"]

[Text] The ocean is the cradle of mankind's existence and development. Today, given a sharp increase in the world population and a sudden drop in land resources, the vast and bountiful ocean has increasingly become the focus of world attention. It can be predicted that, with the in-depth development of sea technology, mankind will discover a new "oasis of life." Meanwhile, the "race for the sea" is very likely to become the center of future military contests. Sea-battle weapons and other methods of sea fighting will also undergo a series of profound changes. In the face of this stern challenge, it seems that we should at present adopt new strategic policies with regard to the building and use of the navy.

Strengthen the Sense of the Sea and Build a Powerful Navy

According to forecasts by UNESCO and the Rome Club, the world population could reach 6.3 billion by the end of the century. Land resources will no longer be sufficient to satisfy the food, drinking water, and raw material needs of a population swelling at such a quick pace.

What is the way out for a "starving world"? The sea can help mankind solve the most difficult problem of resources. According to surveys, there are more than 200,000 varieties of living things in the sea. Eighty percent of global living resources are in the sea. Sea-bottom petroleum deposits stand at as much as 250 billion or so tons, three times the land deposits. The sea contains more than 4 billion tons of uranium, about 4,000 times the land deposits. The ocean bottom has a deposit of 3,000 billion tons of manganese nodules, containing more than 30 varieties of rare metals, with an annual growth rate of 10 million tons. The sea has deposits of about 50,000,000 billion tons of "salt of a kind," containing 80-odd varieties of elements. If all such things were extracted, they would add a 150-meter height to the world's land. The total deposit of marine energy is more than 1,000 times the energy needed for the growth of all the globe's animals and plants as well as their reproduction, with the process going on indefinitely... Moreover, the sea is also the most economical and most convenient "lane for navigation." According to statistics, the cost of sea transportation is 45 percent lower than that of rail transportation and more than 95 percent lower than that of highway automobile transportation. Therefore, in recent years, the world's various countries, especially technically advanced and economically developed countries, have successively treated sea development as a fundamental policy for making the country rich and promoting the people's welfare. Tremendous economic results have already been obtained from the sea. For example, the Langsi [2597 2448] tidal

power station built by France can provide 544 million units of electricity a year. Formerly poor Norway became overnight one of the richest nations in the contemporary world after discovery of petroleum in the North Sea. The annual income of Venezuela, a small South American country, from offshore oil extraction reaches more than \$10 billion. Twenty percent of U.S. sulphur output comes from the sea. In 1975, the total output value of the world's sea development reached \$116 billion. In 1980, it exceeded \$250 billion. In a short span of 5 years, output value had doubled.

Conflict of interest and military contention often go side by side. While a boon to mankind, the sea is also a source of conflict. After World War II, the world witnessed several hundred regional wars and armed conflicts, with naval involvement in more than 80 percent. The Falkland Islands war between Britain and Argentina and the Gulf war that captured world attention also centered on a dispute over marine rights and interests.

To effectively control the sea, the various countries close to the sea have put naval development in a prominent place, in a sea development race. For instance, in recent years, the United States has formulated a colossal "600-ship plan," raising naval spending to top place among the three armed forces. The Soviet Army has held that "among various armed services, the Navy is most capable of effectively safeguarding the state's national interests abroad." After many years of hard effort, it now has a "powerful ocean-going fleet of the offensive type." In the latter part of the 1980's, the Japanese Navy facing us from across the sea showed especially rapid growth. Naval spending accounted for 30 percent of the country's total national defense expenses—with naval strength ranking seventh in the world. Naval spending in 1986 was 8.2 percent more than in the preceding year, exceeding the land force's growth rate of 7.6 percent. India, which had all along pursued "a mainland policy," has in recent years also made a turnabout. Spending on the Navy jumped from 4 percent of the total expenses for the three armed services in the middle of 1960's to 45 percent in the latter part of the 1970's, rising to first place from last place. At present, there is "a most powerful sea force along the Indian Ocean."

Ours is a big country close to the sea. According to the provisions in the "UN Convention on the Law of the Sea," more than 3 million square kilometers of inland waters, territorial waters, continental shelves and sea areas that belong to economic zones, equivalent to a third of our country's land surface, should be placed under our jurisdiction. Our country's sea area stretches across temperate, subtropical, and tropical zones, with wide continental shelves. It is richly endowed by nature. It has rich deposits of minerals, living things and energy resources. According to surveys, there are deposits of about 10 billion tons of petroleum, about 1,000 billion cubic feet of natural gases, and 440 million tons of seaside ore sand, a theoretical deposit of about 1 billion kilowatts of sea energy, and a likely annual catch of more than 5 million tons of fish. Without a doubt, on the

march toward the new century, we can only set sights on the sea and use a strong concept of national interests and the angle of strategy to understand, develop, and use the sea. Only in this way can the state become prosperous and the people thrive, with the nation maintaining its hold among the world's powers. But what is deplorable is that in recent years our country's "precious marine deposits" have not been put to full use. On the contrary, there has appeared the situation of "islands and islets being occupied, sea areas being carved up, and resources being looted," and marine rights and interest being wantonly encroached upon. In light of this serious situation, we must give prominent attention to strengthening naval construction, while energetically developing the marine cause. It can be said that emphasis on developing the Navy is where the fundamental and long-term interests of the state and the people lie. It has a direct bearing on our country's cause of 1,000 years and on our descendants for all generations to come.

Readjust the Sea Defense Strategy and Introduce "Near-the-Ocean Defense"

With deepening development of the sea and intensification of the sea contest, the United States, the Soviet Union, Japan, India, Vietnam, and other countries have in recent years been keen on sea infiltration and expansion. In 1986, the U.S. Navy Department announced the need to introduce the "forward position strategy" and control the world's 16 important sea passages. The Soviet Union has called for a confrontation with the U.S. Navy in the world's oceans, with "the Soviet Navy's banner fluttering over all corners of the world's oceans." Japan has demanded that the "self-defense sea force" not only include the defense of surrounding sea areas and the safeguarding and blockade of the "three great straits," but also involve control of 1,000 knots of sea lines of communication. The Indian Navy has recently made a rapid advance from defenses near the shore to deep-sea defenses far from shore. It has also attempted to "turn the Indian Ocean into an Indian lake." The Vietnamese Navy is at present still not well-developed. But it has stretched a "hand" to the northern gulf, the eastern sea areas, and our country's Nansha [Spratly] Islands.

In its 40 years or so of construction, our Navy has introduced a mainly "near-the-shore defense" strategy. This was in line with our then-prevailing economic strength and naval strength. But with development of the situation and the ever-growing importance of sea development in our national economic construction, our Navy should make a strategic shift as quickly as possible, from "near-the-shore defense" to "near-the-ocean defense," or restore our "national gate" at sea through readjustment at the northwest Pacific bordering our mainland's national territory.

The introduction of the "near-the-ocean defense" strategy helps in maintaining our marine rights and interests. Readjusting the sea defense strategy frontier to reach the northwest Pacific would allow control of all the

sea areas that should be under our jurisdiction as defined in the provisions of the International Maritime Convention, and all the islands and islets and all areas of the China Sea that should be under our sovereignty. This, on the one hand, helps safeguard our country's sea territory, marine resources, sea transportation, and other sea development activities. On the other hand, it is conducive to our regaining our sovereign islands and islets.

The introduction of the "near-the-ocean defense" strategy helps in resisting sea invasion from external enemies. At present, with the development of military science and technology, there has been great development in a sea shock force's power of destruction, shooting range, mobility, precision in hitting targets, and so forth. For example, the equivalent of most of the submarine-fired ballistic missiles of the Soviet and U.S. Navies is above several hundreds of thousands of tons, with a firing range of 4,000-5,000 knots, a flying speed already approaching 20 times the speed of sound, and a precision in hitting targets within 1 kilometer. The firing range of Soviet and U.S. naval strategic guided missiles has, in some cases, reached more than 1,000 kilometers. It is quite clear that, in future military sea contests, we can only increase the depth of sea defense strategy. Only in this way can we quickly discover and resist armed forces and weapons attacking us, and can we effectively organize continuous counterattacks at many levels and foil the enemy's sea invasion.

In addition, the introduction of a "near-the-ocean defense" strategy can serve to stimulate the peace process in the Pacific region and in the world. In light of the pattern of international strategy and the trends of development in the sea contest, the northwest Pacific will become the important strategic point closely watched and fiercely contested by various countries along the coast. Only by introducing the "near-the-ocean defense" strategy, can we have strategic influence in this region, and can we play a proper role in stimulating the peace process in the Pacific region and in the world.

The Navy is an armed service having much to do with technology. The introduction of the "near-the-ocean defense" strategy undoubtedly calls for a given material basis. But, as long as we drop traditional concepts, take development of the Navy as "a worthy investment," and properly adjust the three armed services proportionally, the introduction of the "near-the-ocean defense" strategy, given our Navy's existing basis, is not only unusually necessary, but is also entirely possible.

Perfect the Navy's "Overall Functions" and Give Full Play to the Navy's Role in Times of Peace

Taking an overall look at the history of development of navies at home and abroad, we can easily see that the Navy has not only the function of "safeguarding the sea" but also the function of "developing the sea." The Bering Strait linking Asia and North America was first discovered by a Russian naval officer (wei-tu-si) [4850 0956 2448] Bering. The Drake Passage linking the Pacific and

the Atlantic was named after Admiral Drake of the British Navy. Scott, who landed on the apex of the Antarctic Pole with magnificent contributions to polar exploration, was also a British naval officer. In March 1960, Lieutenant (wo-er-shi) [3087 1422 0087] of the U.S. Navy scuba dived to the deepest part of the world's oceans—the Mariana Trench. U.S. Marine Corps officer (mo-li) [5459 6849] and the men and officers of the British cruiser Challenger made systematic surveys of the sea, starting a new era in ocean studies and laying the foundation for contemporary oceanographic studies. Experience shows that if a navy can give full play to its above functions, its output "will greatly exceed" input.

Since its founding, our Navy has actively participated in escorting fishing and other vessels, in ocean studies, pole surveys, and other activities, making an important contribution to the state's marine cause. But in the building and use of the Navy, there still exists a trend, to

excessively emphasize the role of the Navy as an armed service. Attention is paid to the development of the Navy's functions in times of war, but inadequate attention is given to the functions and role of the Navy in times of peace. In this century, as far as the international strategic environment is concerned, our country is still in a relatively peaceful period. But the sea development cause and the marine military race are likely to enter a new period of history. Therefore, we must seriously study and fully develop the functions of our Navy in times of peace, scientifically readjust its "internal mechanism," and realistically raise its modern sea battle capacity—the capacity to fight at a distance, to fight independently, to react quickly, and to launch an attack. We must strive to make the Navy play a positive role in resisting invasion at sea, in maintaining the state's marine rights and interests, and in supporting the state's foreign policy and economic construction.

EAST REGION

Fujian Vice Governor Addresses Provincial Government Meeting

OW0511020589 Fuzhou Fujiang Provincial Service in Mandarin 1100 GMT 19 Oct 89

[By reporter (Zhou Liyun) from the "Provincial News" program]

[Excerpts] The third meeting of members of the provincial government this year opened in Fuzhou today. The main purpose of the meeting is to study and to implement the guidelines contained in Comrade Jiang Zemin's National Day speech, review the government's work since the beginning of the year, and study and plan the government's current and future work in various fields. Prefectural commissioners, city mayors, and responsible persons of the provincial departments concerned are attending the meeting.

Vice Governor Shi Xingmou made an important speech at today's session, which was presided over by Governor Wang Zhaoguo.

Reviewing the government's work since the beginning of the year, Vice Governor Shi Xingmou said that all provincial localities and departments have persisted this year in making economic construction the central task, in upholding the four cardinal principles, and in adhering to the reform and open policy. They have carried out the principles and policies established by the central authorities and achieved certain results in reducing social demand, adjusting the economic structure, deepening reform, opening wider to the outside world, organizing production work, increasing supply, stabilizing the market and prices, improving the economic environment, and rectifying the economic order. Despite the turmoil and counterrevolutionary rebellion in Beijing, the situation in our province has remained stable, and our economy has achieved a sustained, steady, and coordinated development. As regards agriculture, spring and summer grain this year increased by some 300 million kilograms compared with last year. Work connected with afforestation and village and town enterprises both have registered double-digit growth. The average per capita income of peasants has climbed 110 yuan. With regard to the industrial sector, the excessive growth rate has come down, the product mix has been rationalized, and economic efficiency has gone up. Our province has handed more than 1.877 billion yuan in profits to the state in the form of tax payments, surpassing last year's figure by 12.98 percent. The scale of fixed asset investment has been put under control. In addition, 920 projects in the province, involving a total investment of 1.647 billion yuan, have been suspended or deferred. Meanwhile, more supplies have been made available to the market and the rate of price hikes has slowed down. [passage omitted]

At the same time, however, Vice Governor Shi Xingmou pointed out that numerous difficulties and problems

continue to confront the work of our province at this time, including, primarily, insufficient funds for agricultural development, a decaying infrastructure, a slowing down in the development of village and town enterprises, sluggish sales in the market, and slow growth in exports.

Referring to the work to be grasped now and in the days to come, Vice Governor Shi Xingmou stressed that, first of all, it is necessary to study earnestly Comrade Jiang Zemin's important speech at the meeting held to celebrate our country's 40th anniversary. Leadership at all levels should play a leading role in this respect. Governments at all levels and all other departments and units should make arrangements for their cadres, staffers, and workers to study the speech conscientiously, understand deeply its content, and achieve unity in thought and action on the basis of the guidelines of this speech as a way to ensure the success of the work in their respective fields.

Vice Governor Shi Xingmou said that, with regard to agriculture, present work should be directed at strengthening the management of the late autumn crop, at making early arrangements to ensure the supply of materials and funds required for growing the overwintering crop, and at doing well in farmland and water conservancy construction during the coming winter-spring period. [passage omitted]

Vice Governor Shi Xingmou said that in the industrial sphere we should increase the vitality of state-owned large and medium-sized enterprises and adjust our industrial structure, product mix, and the structure of investment. We should support the development of the three kinds of wholly or partially foreign-owned enterprises [Sino-foreign joint ventures, Sino-foreign cooperative enterprises, and wholly foreign-owned enterprises]. [passage omitted]

In conclusion, Vice Governor Shi Xingmou said that in the days to come, we should uphold the principle of grasping our work with both hands; that is, we should do well in building spiritual civilization on the one hand and in developing the legal system on the other. We should strive to advance the work of improving the economic environment and of rectifying the economic order as well as the reform, opening up, and economic construction in our province.

Jiangsu Governor Extols Contributions of Elderly

OW0311142089 Nanjing XINHUA RIBAO in Chinese 9 Oct 89 p 1

[Text] Comrade Chen Huanyou October delivered a television speech on the occasion of the province's second Respect for the Aged Day on 7 October. He extended his warm greetings and highest respects to the 7 million senior citizens in the province on behalf of the Jiangsu Provincial CPC Committee and the provincial government. He also gave his cordial regards to the

comrades doing welfare work for the elderly and the comrades who support and show concern for the well-being of the elderly.

Comrade Chen Huanyou said, "Senior citizens of the province, today you are the forerunners and builders of socialist undertakings. All our achievements in revolution and construction today reflect your sweat and energy. The wealth and experience that you created in the several decades of struggle laid a foundation for the successors to advance from. Now you are advanced in age and have left your former work posts, but your fervent hearts are still for the motherland's prosperity and the social progress. A number of high achievers are among you." He particularly pointed out that "During the struggle to quell the counterrevolutionary rebellion in Beijing in the late spring and early summer this year, you took a firm and clear-cut stand; resolutely identified yourselves with the party Central Committee; and showed the lofty sentiments of the older generation in loving the party, the motherland, and socialism. Your selfless devotion and lofty revolutionary moral character will always encourage people to forge ahead. People will never forget your contributions to the country, society, and families."

Comrade Chen Huanyou said, "Since 1988, Jiangsu Province has become an old-age-type region. At present, the number of people over 60 years old continues to increase at an annual rate of 0.3 percent. For this reason, promoting the well-being of the elderly is a work of strategic significance. Respecting and providing for the aged are traditional virtues of our Chinese nation. Under the socialist system, we should carry forward such virtues and create a social and family environment for the elderly to lead a peaceful life and continue to give full play to their wisdom and talents in their remaining years. This is a bounden duty of the whole society, as well as everyone's responsibility."

Chen Huanyou called on the party committees and governments at various levels and the departments concerned to fully understand the great significance of the work for the aged; pay more attention to and support the work; rely on the masses and the whole society to ensure good welfare for the elderly; and pay attention to protecting senior citizens' legitimate rights and interests according to law so that senior citizens truly have "adequate means of subsistence, medical care, recreation, and work and study opportunities." At the same time, he urged the elderly people to have self-esteem and continue to work hard to improve themselves and make more contributions. He called for creating such a good atmosphere that young people respect the elderly and the young and the old unite with each other and make progress together throughout the province. Chen Huanyou was convinced that under the party leadership and with the joint efforts of the whole society, the work of showing respect for the elderly in the province will surely become better and better year after year.

Jiangxi Leaders Attend Scientific Forum

OW0311142289 Nanchang JIANGXI RIBAO in Chinese 9 Oct 89 p 1

[By reporter Wen Dong]

[Excerpts] The air was heavy with the aroma of the orange osmanthus. It was again the Double Ninth Festival. On 8 October, the provincial CPC Committee and the provincial government invited the scientists and technicians of Jiangxi origin who were working in other provinces, and experts, professors, scientists, and technicians who have contributed in various fields in our province, to mark the grand reopening of the newly renovated Prince Teng Pavilion. [passage omitted] In the afternoon, leading comrades of the provincial CPC Committee and provincial government held a discussion meeting with them on the issues of developing Jiangxi's economy and of revitalizing Jiangxi. In a show of historical responsibility of tirelessly working for and dedication to the undertaking of the party and the people, participants to the forum eagerly talked about their impressions, advanced suggestions, and good proposals.

Wu Guangzheng, Liu Fangren, and Jiang Zhuping attended this forum. Huang Huang presided over the forum. [passage omitted on remarks of experts, professors, scientists, and technicians]

One after another, participants requested to take the floor. The atmosphere was lively throughout the discussion.

Leading comrades of the provincial CPC Committee and provincial government listened attentively to the speeches of scientists and technicians. Occasionally, Governor Wu Guangzheng cut in with a few comments. He affirmed the achievements of the scientists and technicians. He urged all to have lofty aspirations and great ideals; have the will to surpass the achievements of their predecessors; strive for achievements in life, and live up to the great expectations of the party and the government.

Governor Wu Guangzheng Speaks at Scientific Forum

OW0411035989 Nanchang JIANGXI RIBAO in Chinese 9 Oct 89 p 1

[Speech by Wu Guangzheng at forum of scientific and technical workers, 8 Oct 89, Nanchang]

[Excerpts] Dear experts, comrades:

It is the Double Ninth Festival again. In this season of colorful maple leaves and of fragrant orange osmanthus, I am very happy to see you gathered here to discuss the current situation and tasks and to confer on the grand strategy to revitalize Jiangxi.

According to a Chinese saying, we think of our dear ones far away more than ever on festive occasions. Here, on

behalf of the provincial CPC Committee and the provincial government, I wish to express my warmest and highest regards to those experts and professors who are now attending the forum. Also, through you, I wish to extend my regards to other scientists and technicians in the province as well as to those scientists and technicians of Jiangxi origin who are now working in other provinces. [passage omitted]

Comrades, when we reflect on the past in the light of the present, and when we look into the future, our minds are filled with a sense of responsibility, pride, and mission.

The pavilion that was reconstructed along the bank of Gan Jiang symbolizes our long and brilliant culture. Just imagine, our architects and skilled craftsmen were able to build a majestic and graceful building even 1,000 years ago. In that epoch the poet Wang Bo was able to compose such a masterpiece of poetic work that generations after him continue to recite it. This shows the degree of development of our ancient culture, arts, and technology. In a sense, our forefathers had every right to be proud of their legacy to future generations. We too must strive to leave a good legacy to future generations for which we all can be proud. This historical sense will drive us to strive and work hard for the undertakings of the party and the people.

Poet Wang Bo fully described the beauty of the former Pavilion of Prince Teng in his "Preface to the Pavilion of Prince Teng." However, speaking from the perspective of structure, design, scale, and architectural level, we may say that the ancient Pavilion of Prince Teng was no match for the reconstructed Pavilion of Prince Teng of today. This is because society develops and history progresses. Future generations inherit the legacy of previous generations and surpass their achievements. That is what we refer to when we say "the waves behind drive on those before, so each new generation excels over the last one." We should let this law be fully applied in our various undertakings, including the development of science and technology. Older generations of scientific workers should train young successors enthusiastically and they should be broad-minded enough to see their pupils surpass the masters. On the other hand, middle-aged and young scientific workers should respect and learn from experts of older generations, but still be filled with lofty aspirations and great ideals and strive to surpass their predecessors. Only by inheriting, constantly developing, advancing, and upgrading, can we expect our undertakings to flourish even more.

The reconstructed Pavilion of Prince Teng was finely constructed. What made it so fine? Of course, many people contributed to its reconstruction. However, I would like to stress the role of architects, engineers, and technical workers. We would not have today's Pavilion of Prince Teng without their creative labor. The project of rebuilding the Pavilion of Prince Teng is like that and socialist construction also should be like that. We should respect knowledge and talented people. We should rely wholeheartedly on the working class. Knowledge is

called for, and talented people, scientists, and technicians are required to construct well the land of Jiangxi, a "horn of plenty, a land favored by the gods," and a land of "vitality which begets outstanding people." That Jiangxi has scored quite remarkable achievements in construction is the result of the Communist Party's correct leadership; the achievements also are inseparable from the hard work and selfless dedication of scientific workers. As our country's priceless treasure, intellectuals were, are, and will be the force with which to embark on our country's socialist modernization construction.

Wang Bo was one of the so-called "four talents in the early Tang." He was learned. However, in his time his talents and aspirations were not appreciated. Therefore, he composed the "Preface to the Pavilion of Prince Teng" to describe his feelings of wasted talent; he sighed that he "joined the military because he had no way out." To use a modern-day expression, it means that there is no avenue for offering one's service to the country. Times have changed today. The condition in which Chinese intellectuals and scientific workers find themselves is completely different from that of ancient times. The party and the government have placed more hope on scientific workers since the 4th Plenary Session of the 13th CPC Central Committee and since the formation of the new leading body of the CPC Central Committee headed by General Secretary Jiang Zemin. To those scientific workers who ardently desire to serve the country, there is much work awaiting you and a wide arena in which you can show your talents. You can completely find your place in the course of the construction of the four modernizations. The countryside, the mountains, the woods of Jiangxi beckon you and the plants and mines expect you. Let us strive with sincere hearts for achievements in life.

SOUTHWEST REGION

Tibet People's Government Work Report

90ON0096A Lhasa XIZANG RIBAO in Chinese
9 Aug 89 pp 1, 3-4

[Article: "People's Government Work Report Delivered at the Second Session of the Fifth Autonomous Region People's Congress on 27 July 1989 by Tibetan Autonomous Region People's Government Chairman Duojicairang"]

[Text] Delegates:

On behalf of the autonomous region people's government, I now submit the government work report to the congress for its examination and approval.

I. Correct Analysis of the Situation To Enhance Confidence in Continuing To Forge Ahead

Under the caring attention of the State Council and the direct leadership of the region's CPC committee, during the past year, government at all levels has earnestly carried out the spirit of the 3d and 4th Plenary Sessions

of the 13th Party Central Committee and instructions from the CPC Central Committee on several problems on work in Tibet. It has adhered to "one center and two fundamental points" in the correct handling of reform, and in building and stabilizing relationships in the situation. Thanks to the joint efforts of people of all nationalities throughout the region, varying degrees of progress have been made in various tasks, including improving the economic environment and restructuring the economic order, developing social productivity, and stabilizing the situation.

1. Definite Development of the National Economy

In 1988 the total output value of industry and agriculture throughout the region reached 933 million yuan, up 4.2 percent from the previous year. Grain output reached 508,000 tons, up 8.8 percent from the previous year. Among livestock products, the commodity rate for the major products, meat and hides, increased over 1987. The situation in processing and production improved. The gross value of industrial output of the region reached 202 million yuan, up 10.4 percent from 1987. This included a 40 million yuan output value from the ethnic handicraft industry, up 5.3 percent from the previous year. Gross highway freight transportation volume and freight turnover volume increased 19.75 and 19 percent, respectively, over 1987. Air freight transportation volume also increased over 1987. The further development of industrial and agricultural production raised the income level of the peasant and herdsman masses. In 1988, peasant and herdsman earnings for the region as a whole were 380 yuan per capita, 20 yuan more than in 1987.

During the past year, government at all levels has striven to change money management concepts. It has conducted a pervasive campaign of "double increase and double economy," has taken a firm grip of production, has deepened reform, has intensified tax collection and control work, and has done everything possible to gather revenues. As a result, government financial net income for 1988 was 2.257 million yuan, a preliminary turn around of the net deficit in financial revenues. This is a good beginning in the strengthening of our own financial resources and freeing ourselves from government financial difficulties.

Fairly good economic returns were realized from adherence to the opening to the outside world for the development of external economic trade and lateral economic links. During 1988, government at all levels and departments concerned further increased the production and procurement of specialty farming and livestock industry products including cashmere, yak hair, matsutake [song rong 2646 5422], and Chinese caterpillar fungus [Cordyceps sinensis]. Both output and amounts purchased exceeded the all-time high in the region's ability to earn foreign exchange from exports and an increase in the masses' earnings. In 1988, the entire region had imports and exports totaling \$22,084,500, up 19.7 percent from 1987. This included exports totaling \$15,988,700, up 32.2 percent from 1987. Actual foreign

exchange earnings amounted to \$12.85 million, up 33.79 percent from 1987. At the same time, departments concerned succeeded in obtaining foreign assistance. International assistance projects during the past several years that are a part of "bilateral" and "multilateral" assistance plans and that are in the process of being carried out number 12, foreign assistance funds amounting to \$5.66 million. In addition, three Tibetan geothermal development and "3357" projects using \$14.87 million have also been made a part of the "bilateral" and "multilateral" international assistance plan, and are presently being gradually carried out. While taking a firm grip on external economic trade, new advances were also made in lateral economic relationships. Some enterprises used discounted loan funds in lateral economic partnerships and cooperation in order to import technology, skilled personnel, and management for the processing of products in partnership with inland China enterprises to adjust market supplies of materials in very great demand, thereby achieving marked economic and social benefits.

2. Definite Advances in Economic System Reform

By 1988 30 percent of enterprises had instituted plant director (or plant manager) responsibility systems and various forms of contract management responsibility systems for an expansion of autonomy in plant management, and increase in enterprise economic returns, greater enterprise vitality, a decrease in losses, and an increase in profits. The labor productivity rate for all enterprise personnel reached 7,470 yuan, up 3.9 percent from 1987.

During a time when rural and pastoral areas instituted the policy of "two no changes for a long period of time," some counties and townships promoted farming and animal husbandry science and technology contract responsibility systems, the scientific farming of fields, and the scientific raising of livestock, resulting in improvement to a certain extent. Some counties and townships began to experiment with systems for contract ordering of farm and livestock products. Xigaze, Nyingchi, and Shannan Prefectures also explored and tried contract responsibility systems in which county and township cadres contracted with townships and villages, achieving fairly good results. All prefectures and cities, all autonomous region economic development research centers, and farming, animal husbandry, and forestry committees organized forces to begin study of what was involved in deepening farming and pastoral region reform, and the methods to carry it out.

In the task of improving the building of grassroots political power, the principle followed was to benefit administration, benefit economic development, benefit unity, and benefit the consolidation of border defense in readjusting the scheme of things in districts and townships. A system combining appointment with selection and transfer was adopted to enhance and fill out the township and town cadre ranks. Township and town cadre training was begun with a view to improved cadre

quality. A beginning was also made in improving township government office and living conditions.

3. Continued Development of Educational, Scientific, and Technical Endeavors

During the past year, education received further attention and reinforcement. Funds for education were increased to improve teaching conditions. Despite the extremely difficult financial circumstances of the autonomous region people's governments during 1988, 134.172 million yuan was provided for education. This was 15.37 percent of the fiscal budget for the year. An additional 10 million yuan was provided for capital construction for education. This represented 10 percent of local investment in capital construction. If funds for department-run secondary technical education and cadre training are added to the educational funds, educational funds provided in 1988 would amount to 16.63 percent of the autonomous region's local fiscal budget payments for the year. Of course, looked at in terms of needs for the development of education, this is really not a very high percentage; however, in terms of the autonomous region's current financial resources, it amounts to the exertion of very great effort. After a year of joint efforts on the part of educational departments and quarters concerned, teaching conditions improved to a certain extent. Since 1987, 40,000 square meters of dangerous school buildings have been repaired throughout the region, and 1.175 million square meters of new school buildings of all kinds have been built. By way of increasing teaching media, six satellite receiving stations were newly built to set the stage for audio-visual education programs. In addition, more was done in building the teaching corps. In 1988, more than 630 college and secondary technical school graduates throughout the region took teaching positions, more than 500 of them going to middle and primary schools to fill out and increase the teaching corps. In accordance with State Council and autonomous region people's government provisions, wages and emoluments were increased for teachers appointed to professional duties, the wages of middle and primary school teachers throughout the region increasing 10 percent.

The broad masses of cadres, staff members, and workers on the educational front diligently implemented the spirit of the Second National Work Conference on Assistance to Tibet, and the Third Regional Education Work Conference, varying degrees of progress being made in educational reform and teaching work within the region.

New progress was made during the year in scientific and technical endeavors. "Spark" plans and "bumper harvest" plans were actively promoted in rural and pastoral regions, some industrial enterprises introduced some advanced techniques and equipment to hasten technical transformation, making new contributions in propelling the development of the region's economy. In order to stir the enthusiasm of all categories of personnel possessing special skills, all specialized technical positions were

evaluated and filled with appointees in accordance with pertinent State Council regulations. Throughout the region, a total of 651 people were evaluated, examined, and appointed to high-level specialized technical positions, and 4,322 people were appointed to medium-level specialized technical positions.

During the past year, new achievements were made in various cultural, radio broadcasting, movie, television, newspaper, publishing, health, physical education, financial, and post and telecommunications endeavors.

4. Preliminary Results Evident in Improving the Economic Environment and Restructuring the Economic Order

Since October 1988, governments at all levels have steadfastly and conscientiously carried out the spirit of the 3d Plenary Session of the 13th Party Congress, of the sixth meeting of the third session of the autonomous region CPC Central Committee, and of the enlarged meeting of the Seventh NPC. They have done a large amount of work in improving the economic environment and restructuring the economic order, achieving preliminary results.

They conducted financial, tax collection, and price inspections throughout the region, fining a total of 52.87 million yuan for violations of discipline, 20.31 million yuan of which must be paid to the treasury, and 18.25 million yuan of which has already been paid. The large-scale inspection dealt with a number of violations of discipline and the law involving tax cheating, evasion, and payments in arrears, indiscriminate issuance of financial instruments, misuse of public funds, arbitrary price hikes, and arbitrary fee collections. As a result, the broad masses of cadres, staff members, and workers were subjected to indoctrination in the concepts of taking the whole situation into account, the rule of law, and discipline.

In the construction field, 571 capital construction projects with an area of 649,000 square meters were checked, 510 of which were found to meet central government and autonomous region capital construction requirements; 61 of them, in violation of discipline, were below planned standards. As a result of the checks, a halt to construction in which discipline had been violated was ordered for major projects not yet 50-percent complete. In order to reduce economic losses, construction was allowed to continue on major projects that were 50 percent or more complete, despite the violations of discipline. However, those responsible for making project decisions were severely criticized.

Stocktaking and restructuring of all kinds of companies throughout the region: Stocktaking and restructuring resulted in the dissolution of five of 294 companies in the region; four were disassociated from government and departments in charge of enterprises, and 12 party and government cadres at the county-level and above resigned their concurrent positions in companies.

In order to enhance macroeconomic control over circulation procedures for important commodities and uniformly allocated materials, the autonomous region people's government formulated and issued six temporary administrative regulations and methods. Put into practice for the past 6 months, they brought about a preliminary turnaround in some of the chaos among commodity circulation links.

5. Achievements Scored in Stabilizing the Situation

On 5 March 1989, domestic and foreign splittists, having "Tibetan independence" as their goal, once again created disturbances in Lhasa. In order to safeguard the unity of the motherland, stabilize the situation, and protect the fundamental interests of all nationalities in Tibet, martial law was instituted in the Lhasa region in accordance with a State Council order. In order to carry out the martial law order effectively, the autonomous region people's government issued orders 1 through 6. Thanks to the joint efforts of peoples of all nationalities, and the officers and men of public security units, people's armed police units, and the PLA [People's Liberation Army] during the past half year, the situation in Lhasa became more and more stable.

During the past half year, party and government organizations at all levels have led the broad masses of cadres, staff members, workers, the masses, and patriots in all walks of life in a thorough exposure and criticism of the splittists' vain attempt to divide the motherland, their plot to sabotage the unity of nationalities, and their reprehensible behavior in beating, smashing, looting, burning, and murdering. Thorough indoctrination was given in safeguarding the unity of the motherland and on the situation, and citizen awareness indoctrination was given for the struggle against the splittists. In the struggle against splittism, government and judicial departments at all levels used facts as the basis and the law as the yardstick in a severe crackdown on splittists and various criminal elements, which powerfully frightened the enemy and encouraged the masses.

Simultaneous with the struggle against splittism, we continued diligent implementation of the party's religious policy, respecting and protecting the normal religious activities of the broad masses of monks and the faithful. Supervision of temples was increased in accordance with the provisions of the Democratic Supervision Regulations for Tibetan Buddhist Temples (Trial Implementation). In compliance with requirements from the CPC Central Committee and the autonomous region CPC Committee, and in accordance with usual Tibetan practice in proselytizing Buddhism, we actively and evenhandedly managed the aftermath of the death of the Panchen Lama, consequently, the broad masses of monks and the faithful believe more strongly the party's religious policy and better support the leadership of the CPC.

During May and June 1989, at the instigation and incitement of an extremely small number of people,

political disturbances occurred in the capital at Beijing, going on to become a horrifying counterrevolutionary violence. In order to halt the disturbances and protect the fundamental interests of people of all nationalities in the whole country, as the situation developed the CPC Central Committee and the State Council put into effect a correct policy of martial law and suppression of counterrevolutionary disturbances in parts of Beijing. In the course of this struggle affecting the destiny of the nation, governments at all levels in the autonomous region acted in accordance with the unified plans of the CPC Central Committee, the State Council, and the autonomous region CPC committee, promptly reporting the facts about disturbances and counterrevolutionary violence. They called upon people of all nationalities throughout the region to be vigilant against an extremely small number of people making use of democracy, freedom, and human rights slogans that confused and poisoned people's feelings to create another disturbance to split the motherland. They reaffirmed no change in basic plans and policies for work in Tibet. In addition, they intensified the various martial law measures in Lhasa to keep production, daily life, and teaching procedures basically stable throughout the region. Subsequently, they organized the broad masses of staff members and workers to study documents from the 4th Plenary Session of the 13th CPC Central Committee and an important speech by Comrade Deng Xiaoping. Indoctrination enabled the broad masses of staff members, workers, and people to see clearly the nature of this struggle. They expressed resolute support for the CPC Central Committee, the State Council, and the Central Military Commission for the major decisions and the resolute action they took in quelling the counterrevolutionary violence and stabilizing the situation. They supported the 4th Plenary Session of the 13th CPC Central Committee's rescission of Comrade Zhao Ziyang's central leadership position and the important decision to reassign some of the members of leading central organs. They supported the new central leadership collective, of which Comrade Jiang Zemin is the nucleus. They resolutely kept in close touch with realities in the region, devoted close attention to the four main tasks that the CPC Central Committee proposed, rallied their spirits, and performed well the functions of their positions. They smashed various plots of domestic and foreign splittists, making contributions to stabilizing the situation in the whole country by safeguarding the unity of the motherland and making achievements in economic development.

In the battle against splittism, against disorder, and to stabilize the situation, cadres of all nationalities, workers, peasants and herdsmen, and intellectuals throughout the region expressed a firm position and a clear-cut political attitude, playing the role of a main force. The broad masses of patriots in national religious circles, took a clear-cut stand at the side of the party and the government. They stood on the side of the people, doing a lot of work and making positive contributions. Public security cadres and police, the people's armed

police, and officers and men throughout the PLA obeyed orders, observed discipline, and held to their posts, battling on the front line night and day to quell the riots and making major contributions to controlling and stabilizing the situation, for which they won the understanding, confidence, support, and respect of people of all nationalities in Tibet. Now, in my capacity as a representative of the autonomous region people's government, I express to them my high esteem, and my heartfelt appreciation.

6. Close Attention and Firm Grip Taken on Several Tasks of General Concern to the Masses

First was effective action taken to control price inflation. Prices have risen very abruptly throughout the region since 1988. In particular, following the recurrence of riots in Lhasa during March 1989, prices of some products in the country fair markets of important cities and towns rose enormously without falling. Several important industrial wares used in daily life were in short supply. In order to control prices effectively, all levels of the people's government diligently implemented a series of documents from the State Council on controlling prices, launched a large-scale inspection of prices, strengthened price controls, and cracked down on illegal activities in violation of price regulations, achieving marked success. The autonomous region people's government devoted a large amount of energy to controlling prices in Lhasa. Using investigation and study as a basis, it put into effect maximum prices for meats, fresh fish, and some kinds of vegetables sold in Lhasa markets, increased the number of stalls selling meat, and halted and stamped out the practice of selling only to large customers. It instituted rationing of the four major industrial products used in daily life, namely brown and white sugar, washing powder, and soap. Institution of these measures preliminarily contained price rises. In most country fair markets, prices declined gradually, as supplies of the four main industrial products were substantially ensured.

Simultaneous with increased price and market controls was further work in improving effective supply. Further work in building up vegetable production was conducted simultaneously with close attention to assembling sources of supply of industrial wares used in daily life and the allocation and transportation of commodities. Existing vegetable production bases in the autonomous region and in various prefectures and cities formed the basis for further increases in investment to expand the protected vegetable production area and to increase yields. Currently, Lhasa alone has 485 mu of newly built protected vegetable fields. Taken together with the existing protected area and the normal vegetable growing area, the city has a total of more than 7,000 mu of vegetable fields, producing 2,100 tons of vegetables annually, and providing 1,200 tons of commodity vegetables annually. We believe that, with unflagging attention, the shortage in vegetable supply will certainly be gradually turned around.

Second was close attention to the construction of houses in counties, districts, and townships, and acceleration of the pace of renovating dangerous houses and the old city area of Lhasa. Since the 3d Plenary Session of the 11th CPC Central Committee, the autonomous region, prefectures, and counties have spent a total of 140 million yuan in capital investment and government funds for this purpose. This included the investment of 120 million yuan, or 87 percent of the total amount since 1987. As a result of the efforts made, the appearance of county, district, and township government offices has improved in varying degrees. In Lhasa, the political, economic, cultural, and educational center for the whole region, marked advances have been made in the renovation of dangerous houses and the old city area. In just 3 years since 1987, 25 million yuan has been provided for investment in capital construction. As of the end of 1988, 70,000 of the 130,000 square meters of dangerous residents' houses had been renovated, 45,100 square meters during 1987 and 1988, or more than 64 percent of the renovated area. In order to further hasten the pace, the autonomous region people's government decided that during 1989 and 1990 the governments of the autonomous region, Lhasa City, and the area outside Lhasa would invest 26 million yuan to complete the renovation of the existing 60,000 square meters of dangerous houses.

Third was close attention to and strengthening of the building of clean government. During the past 2 years, in addition to persevering in the education of the broad masses of cadres, staff members, and workers to conduct a struggle against corruption, governments at all levels have set up autonomous region supervisory departments and prefecture and municipal supervisory bureaus in a strengthening of administrative supervision. In addition, some effort has been devoted to handling affairs more democratically, more systematically, and more openly. The autonomous region people's government formulated and issued seven regulations applying to the work of government and offices at the autonomous region level. In the hiring of workers and cadres, in transfers of household registration from nonagricultural to agricultural, and in the administration of industries and businesses, emphasis was given to accepting the supervision of the masses. Attention was given to the role of audit and supervisory departments in the diligent investigation and disposition of a number of cases in violation of the law and discipline. From 1987 until June of 1989, the autonomous region audit bureau audited 102 units and 169 million yuan, finding the expenditure of 14.85 million yuan in violation of discipline, of which 4,621,300 yuan is to be paid into the treasury. Units and individuals in serious violation of financial and economic discipline were fined and reported. From its founding until the end of June 1989, the autonomous region supervisory department placed on file for prosecution or handled 20 cases, 12 of which have been decided and concluded.

Fourth was definite advances in the task of emphasizing the study, use, and development of the Tibetan language. In order to give impetus to the study, use, and development of the Tibetan language, the autonomous region people's government issued Enabling Regulations for Various Provisions (Trial) on Tibetan Autonomous Region, Study, Use, and Development of the Tibetan Language (hereinafter abbreviated to "Enabling Regulations"). Quite a few departments in prefectures, cities, and the autonomous region set up Tibetan-language translation organizations, and began to use both Tibetan and Han script in parallel. Some units wrote and published Tibetan-language teaching materials, which they provided to cadres, staff members, and workers for study. In the field of education, the Tibetan language is used to teach pupils of the Tibetan nationality in all primary schools beginning in first grade. In higher education and self-study course tests, one of the subjects tested is Tibetan language. Tibetan-language secondary technical classes were also set up for testing of adult self-study, and Tibetan-language preparatory courses were run for examination takers. The audio-visual education studio produced teaching videos for junior middle school Tibetan grammar, and for volumes 1 through 8 of primary school Tibetan. The translation, editing, and revision of the Tibetan-language edition of teaching materials will be completed in 1989. In addition, work is proceeding on running Tibetan-language newspaper training classes and pilot-project classes on teaching junior middle schools in Tibetan. At present, the study, use, and development of the Tibetan language is very uneven throughout the region, progress is not ideal, and some units do not devote sufficient attention to it, are lax, or do not take vigorous action. Some of the things that the Enabling Regulations say should be done, and that can be done, have not been put into practice.

Fifth is greater control over personnel and of individual industries and businesses from other cities and the countryside moving to the Lhasa municipal area. In recent years, the number of migrants entering our region has increased greatly. A substantial number of these personnel from elsewhere conduct various kinds of business activities after completing legal procedures, and their business activities play a major role in invigorating our region's markets and making its economy flourish. However, at the same time, some personnel flow is unchecked, some are mendicants and sneak thieves, some are gamblers and prostitutes, and some even engage in criminal activities. The existence of this situation seriously affects the normal production, daily life, and work of people in our region. The masses are strongly opposed to them. In a macroeconomic sense, greater control over personnel from elsewhere and of individual businesses and industries from other cities and the countryside has become an important task in the work of cities and towns under the new conditions. After requesting and receiving autonomous region CPC Committee approval, the autonomous region people's government decided to begin this work in Lhasa. Within the city's endurance and control capabilities and on the

basis of market demand, the Lhasa Municipal People's Government followed the principle of benefits to the opening to the outside world, stability and unity, and economic development. Following autonomous region people's government approval, the city issued Temporary Regulations on Control of People From Elsewhere in the Lhasa Municipal Region. In accordance with this regulation, the autonomous region's Statistics and Economic Committee, the Lhasa Public Security Bureau, and the Lhasa Municipal Industrial and Commercial Administration promulgated and issued pertinent control measures. This work will play a positive role in the future stabilization of the situation and in development of Lhasa's economy in.

While endorsing various work achievements, one should also realize that we still face considerable difficulties and problems. The disturbances that have occurred several times in Lhasa have interfered with normal production, work, and daily life. The building of the economy has been hard hit, and a fine social environment for the readjustment of various economic relationships is lacking. The destructive activities of splittists have not yet halted; the struggle between splittism and antisplittism remains sharp and complex. Many difficulties exist, and arduous efforts will have to be made to control price rises so that the price rise index in 1989 will be markedly lower than in 1988. Government funds are far from able to keep pace with needs in economic construction and the development of ventures, and a long period of arduous efforts will be required before the funds difficulties can be removed. At a time of opening to the outside world and enlivening of the domestic economy, macroeconomic control capabilities are very weak in economic development, and a certain amount of turmoil remains in the commodity circulation area. The tasks faced in improving the economic environment and restructuring the economic order are daunting. Progress in deepening reform has not been ideal, progress in enterprise reform is desultory, and as yet no concrete plans consistent with actual circumstances in Tibet have been offered for the deepening of farming and pastoral area reform. Urban public order awaits further improvements, support for the four basic principles is not sufficiently consistent, and both ideological and political work are weak. The job to be done in building clean government is a very heavy one and is urgent as well. Corruption still exists among a small number of working personnel in government departments, the problem of lack of depth in work style has not been completely overcome, and some problems that should and could be solved have not been solved in a timely and effective way.

II. Firm Grip on Improvement of the Economic Environment and Restructuring of the Economic Order To Ensure Smooth Building and Reform

The key to stable development of Tibet lies in the development of social productivity to do a solid job in building the economy. Without improvement in the economy, no foundation exists for long governance and

enduring stability. Improving the economic environment and restructuring the economic order is the focus of construction and reform during 1989 and 1990, and it is also the focus of government activity. We must rally around this focus, taking firm grip on all economic tasks.

1. Restructuring the Economic Order To Create a Fine Economic Climate

The reforms and opening to the outside world of the past several years have given powerful impetus to the development of productivity. However, because of the imperfect legal and macroeconomic regulation and control systems, action taken in the course of reform and the opening to the outside world has not been vigorous. Numerous loopholes, contradictions, and chaotic events have occurred in the fields of production, construction, and commodity flow. Only diligent improvement of the economic environment, restructuring of the economic order, cutbacks in social demand, and guaranteed effective supply can promote the building of a new socialist commodity economy order.

Good performance in improving the economic environment and restructuring the economic order requires continued attention to the task of checking and restructuring companies. After more than half a year of effort, the task of checking companies in our region is substantially complete. The next step is to do a good job, in accordance with policy provisions, in handling the revocation and merger of company assets and in shifting and placing personnel, resolutely guarding against any person making use of mergers and revocations to misappropriate state property. At the same time, forceful efforts must be made in the restructuring of companies. Whenever problems of chaotic management, administration, finances, and ideology among staff members and workers have come to light, authorities in charge of enterprises and departments concerned should organize forces for analysis and study, improvement, and restructuring to eliminate the chaotic situations company by company, and issue by issue in order to enable companies to perform their normal work. The matters covered and the results of company checks and restructuring should be publicized to the masses, and the comments and supervision of the masses accepted. In addition, industrial and commercial administration and management organs should be sure to intensify regular supervision and administration, rigorously examining the operating qualifications, scope of operations, and operating methods of companies of all kinds. In the founding of new companies, a system of strict examination and approval must be enforced to prevent a situation of checking on some companies while others are swelling out of control.

Good performance in improving the economic environment and restructuring the economic order requires genuine strengthening of price and market controls to increase and improve effective supply.

Market and price controls have a bearing on the interests of millions upon millions of households. These are issues about which the masses are extremely concerned, and they are also important matters having a bearing on the smooth implementation of reform and opening to the outside world. In order to ensure that the extent of price increases during 1989 will be markedly lower than in 1988, first of all, a good job of conducting large price surveys must continue to be done, and such crash surveys must be combined with regular surveys in the building and perfecting of a market supervision system made up of government departments concerned, public opinion and propaganda units, and mass organizations. Reports centers should be set up to encourage the broad masses of people to take part in market supervision in order to bring into full play the role of the masses as price checkers, thereby regularizing, systematizing, and popularizing price survey work. Second is the need for gradual building of a differentiated price administration system for rigorous control of price rises. No department, local government, or enterprise should be allowed to change or raise without authorization the standards for various means of production, consumer goods, and fees for which the state has set prices. In cases in which the state has set maximum prices for means of production and major consumer goods outside plan, these prices must be rigorously enforced. For commodities for which price restrictions have been removed, market prices should continue to apply. For some important products among these, a system should be instituted for reporting price increases. The wholesale-retail price differential for commodities covered by state guidance prices, and some commodities closely linked to the daily life of the masses should be published in the conduct of social supervision. No changes should be made in the sale prices of daily necessities such as grain, edible oil, salt, common tea, brown and white sugar, kerosene, soap, and washing powder that the state supplies to the masses through state-subsidized low-price planned supply, and agricultural means of production such as diesel fuel for agricultural use, chemical fertilizer, and plastic mulch. All departments concerned should do all possible to ensure supply of these commodities, the state's preferential policies thereby truly being reflected in the person of consumers. All state-owned, collective, and individually owned shops (or households) must use a clearly marked price system. Commodities and materials that the state has explicitly designated for monopoly sale may not be sold by units or individuals not permitted to do so by state policy. Monopoly sale departments should also strictly enforce state-set monopoly sales methods and price policies, take customers and the masses into consideration in every way, and resolutely guard against the use of their monopoly position in an effort to make exorbitant profits. Industrial and commercial price, tax, weights and measures, and health and quarantine control departments should possess greater power to supervise and inspect markets of all kinds. In order to protect the legitimate rights of dealers and consumers, they should resolutely crack down on and stamp out attempts to dominate markets, speculation and profiteering, jacking

up prices, tax cheating and tax evasion, and the sale of fake, fraudulent, counterfeit, and inferior commodities.

Simultaneous with greater control over markets and prices should be efforts to increase and improve effective supply. In the flow of commodities, state-owned commercial departments should use to the full the role of main channels. They should continue to use multiple channels and diverse methods, developing lateral links for the conduct of trade deals between provinces, assembling industrial manufactures used in daily life, particularly commodities in very great demand, throwing them on the market to regulate demand and bring down prices. Planned supply should continue to be used for some commodities in short supply in order to prevent the depletion of stocks. At the same time, all prefectures and cities, and all farming and animal husbandry departments should pay close attention to the building of nonstaple food production bases, primarily vegetable bases, to do a good job of vegetable production. They should earnestly summarize successful experiences in linking investment and returns to carry out the building of livestock product bases, and further study and formulate plans and implementation methods for building regional meat production bases. While continuing to raise the region's commodity butter supply, active efforts should be made to process butter jointly with inland China milk-powder production enterprises to increase the source of supply of butter.

Good performance in improving the economic environment and restructuring the economic order requires a determined curtailment of social demand and the launching of an in-depth campaign of "double increase and double economy." First, government financial expenditures must be curtailed and consumption by social groups controlled, holding the purchasing power of social groups within state-set norms. The social group purchasing power norms assigned to individual units may not be exceeded. The autonomous region government has decided to make no further purchases during 1989 and 1990 of various kinds of imported compact cars and no further new construction of houses for the autonomous region's top-level leading cadres. The system for examining and approving the holding of conferences is to be further tightened up. The size of conferences is to be controlled. No conference may be held in a first-class guesthouse, no banquets are to be given, and no mementos may be issued. Control over labor and wage funds is to be increased in order to control a rise in total wage costs and to call a firm halt to the indiscriminate issuance of bonuses and prize goods and the unauthorized expansion of the scope of subsidies and allowances. A good job should continue to be done in large-scale checks of tax collection and financial matters for further tightening up of financial and economic discipline. All trades and industries should carry forward the fine tradition of arduous struggle, hard

work, and thrift. A pervasive, enduring, and down-to-earth campaign for increasing production and practicing economy, increasing income, and reducing expenditures should be launched to call a halt to all senseless expenditures, and to oppose all forms of extravagance and waste. Efforts should be made to open new sources of wealth, revenue collection and control work should be improved, all revenue that can be assembled should be assembled, and efforts should be made to balance this year's fiscal budget. Full use should be made of the role of economic supervisory departments, including auditing, tax, and banking departments in order to increase returns on all kinds of investment. Second, capital construction is to be strictly controlled. Capital construction projects throughout the region, particularly key projects, are to be more closely controlled during 1989 in accordance with requirements for improving the economic environment and restructuring the economic order, while maintaining both the rate of progress and its quality. New construction projects are to be strictly controlled. Work may not begin on any capital construction projects for which departments in prefectures, cities, and the autonomous region have raised funds but have not been reported and approved in accordance with regulations. Nor may the scale of construction projects within plan be enlarged or standards raised; otherwise, construction units and leaders in departments in charge will be investigated and held liable in order to safeguard the solemnity of state plans and policies.

2. Betterment of the Position of Farming and Animal Husbandry as the Foundation; Doing a Good Job on Key Construction Projects

The economic development of the region must have farming and animal husbandry as its foundation, and have energy, transportation, and communications as its focus in the energetic development of farm, animal husbandry, and forest product processing industries. In addition, mining, tourism, and other tertiary industries, notably business and foreign trade, should be actively developed in the organic linking of primary, secondary, and tertiary industries.

a. We should genuinely strengthen the position of farming and forestry as the foundation to win a bumper harvest in farming and agriculture in 1989.

Farming and animal husbandry are the foundation of the region's national economy. Without a rise in farming and animal husbandry, peasants and herdsmen will be unable to solve completely their problems of getting enough food and clothing and gradually taking the road to riches. That would mean no sustained, consistent development of the region's national economy. Consequently, the position of farming and animal husbandry in the regional economy positively cannot decline; the investment of funds positively cannot be reduced; leadership positively cannot be weakened; and work positively cannot be relaxed.

The current task in improving the base position of farming and animal husbandry is to spare no effort in winning a bumper harvest in farming and animal husbandry during 1989. While relentlessly taking firm hold of field care and the pasturing and care of livestock during the latter part of the farm crop season, a psychology of fighting disasters to win a bumper harvest should be firmly established in order to do a good job of guarding against and fighting disasters by organizing and having materials, funds, and transportation at hand, thereby ensuring the safety of the lives and property of the masses and reducing disaster losses. The opportunity should not be missed to take a firm grip on summer planting and on farming, animal husbandry, and forest production during the autumn season in order to lay a foundation for production in the coming year. Economic diversification should be actively conducted and every means possible used to increase income.

The key to bettering the foundation of farming and animal husbandry, to enhancing the development of reserve strength to bring an end to the situation of farm and animal husbandry production not moving ahead, and to enabling farming and agricultural production to advance to a new stage lies in giving firm attention to the following two points:

1) To unflinchingly do a good job in capital construction of farmland, water conservancy, and pasture land for the steady improvement of production conditions. Plans for farmland, water conservancy, and pasture land capital construction projects during 1989, which consist mostly of farm and livestock product bases, should be fulfilled at plan quantity and quality. All projects to be completed during 1989 may positively not be extended into 1990. This applies particularly to "3357" projects, which are model projects for the integrated development in the region of farming and animal husbandry that are carried out with international assistance. No effort should be spared during 1989 and 1990 to complete the first stage of these projects. While devoting close attention to construction projects under way, a good job of advance work should be done on the comprehensive development of the "three rivers" basin, and on projects being planned for 1990. In the capital construction of farming and animal husbandry, the psychology of relying on the state for everything must be overcome. The state makes every effort to increase the investment of funds, so the people should also increase their investment of labor. The state of affairs in which much attention is given to construction but little attention is given to maintenance must be changed, and the consolidation and utilization rates for farmland, water conservancy, and pasture land facilities should be increased to get maximum returns from investment of funds. Key areas must be emphasized in bettering the construction of the farming and animal husbandry base. The region covers an area of 1.2 million square kilometers and has more than 70 counties (or districts) in which the farming and animal husbandry bases differ and conditions vary. Identical requirements, identical speed of construction, and getting identical

economic returns is basically impossible. Superlative advances in farming and animal husbandry production require firm attention to key areas. Departments concerned in all prefectures, cities, and the autonomous region must conduct surveys and studies, following the principle of providing models to lead the way by concentrating skilled manpower and funds for key construction and breakthroughs in key areas. They should propose ideas for the future concentration of skilled persons and funds, and key construction and key areas for breakthroughs at future farming and livestock product bases, thereby better highlighting the emphasis, making actions more reliable, and producing more marked returns from farm and animal husbandry capital construction.

2) To view the promotion and popularization of farming and animal husbandry science and technology as crucial to the development of farming and animal husbandry. Comrade Xiaoping recently said that, "The agricultural problem has to be studied, too. Ultimately, possibly science can solve the problem." This instruction from Comrade Xiaoping is a profound statement of where the real potential lies in the development of farming and animal husbandry. Without adherence to scientific and technical progress and scientific care, the limited amount of cultivated land cannot produce sufficient grain and other farm and livestock products, nor can the problem of sufficient food and clothing be completely solved in a situation of steady population increase. Much less can a well-off or higher standard of living be attained. The experiences of recent years in the contracting of science and technology should be diligently summarized and promoted, and the contracting of science and technology should be organically linked to administrative cadre contract responsibility systems. There should be greater continuity in the ranks of scientific and technical personnel, and they should be suitably concentrated for use, their roles being used to the maximum extent possible. All means should be used to improve the scientific and technical training of the peasant and herdsman masses, transforming the use of science and technology into actions that the masses take consciously, genuinely putting development of farming and animal husbandry gradually on the path of relying on scientific and technical progress and improvement in the quality of labor.

Simultaneous with the development of farming and animal husbandry production, all jurisdictions should use local advantages in the vigorous development of raw materials processing industries, primarily for farm, animal husbandry, forestry, and local specialty products. These processing industries will organically combine "planting, raising, and processing" for the gradual development of unified township and town enterprises in which agriculture, industry, and business, and animal husbandry, industry, and business are part of a single integrated process from the production of primary products to their processing to assist the flourishing of the city and country economy.

It is necessary to continue to do a good job of nurturing both farming and animal husbandry. Experiences should be diligently summarized in continued adherence to a reform orientation, working in the spirit of emphasizing support for production, and solving problems one by one, the easy ones first and the difficult ones later, first providing support to needy households that have the will, make the effort, and have the conditions to become wealthy to serve as a model for energizing the situation as a whole. Financial support and moral support should be combined and linked to the promotion of science and technology in order to solve the food and clothing problems of needy households faster.

b. Accelerate basic construction of energy, transportation, and communications, and the production of major industrial products.

Energy construction. Energy is the major factor limiting the economic construction of the region. In recent years, we have built some energy facilities, and installed electric power capacity has also steadily increased; nevertheless, the conflict between supply and demand remains glaring. Although the region possesses factors for increasing electricity, poor management in the generation and supply of electricity also exists. During 1989 and 1990, close attention must be given both to continuing to build power plants and to ensuring completion according to plan and the coming onstream, with no impairment of quality, of power plants now being constructed. Along with increasing installed capacity, more must be done to improve key power stations, power plants, and power grid lines, to further improve management standards, eliminate hidden dangers, reduce accidents, and improve electric power supply and generation capabilities. Continued efforts must be made to use electricity in a planned way, and to conserve the use of electricity in an effort to ease the conflict between supply and demand for electric power.

Communications and transportation construction. The pace of construction of the Zhongni and Nachang highways should be accelerated, quality ensured, and the complete opening to traffic during the year according to plan guaranteed for the Dingsu section of the Nachang highway, and for the Quda section of the Zhongni highway. At the same time, scientific and technical study of highway construction and maintenance should be increased to do a good job on the renovation of some sections, and maintenance of the entire Qinghai-Tibet highway in order to keep all major transportation arteries open. All prefectures and cities and all transportation and communication departments should restructure and improve their transportation corps. They should make up their minds to allocate a certain amount of financial resources to accelerate the replacement and renovation of vehicles used for transportation to improve transportation capabilities. In addition, they should further improve methods of organizing transportation to improve transportation efficiency and ensure fulfillment of transportation quotas. Firm grip should

also be taken on construction of the Gongga Airport expansion project to ensure on-time completion.

Building of communications. A better job should be done in managing the ground satellite communications facilities already built in Lhasa, Xigaze, Nyingchi, Qamdo, and Ngari to improve service quality. A firm hand must be taken to hasten the pace of construction of the satellite communications stations now under construction in Shannan and Nagqu Prefectures and at the Zhangmu entry point in order to get them into operation as soon as possible. Further attention should be given to Lhasa's Shangxing Station, programmable telephone, municipal telephone capacity expansion, and the six prefectures and one city satellite communication support projects, as well as to the building of the Lhasa television center project. Efforts are to be made to improve the region's communications, increasing operating efficiency to enrich the cultural life of the masses of people.

Even while the aforementioned key projects are under construction, there should be no relaxation of attention to some important industrial products, such as cadmium ore, cement, timber, and ethnic handicraft industry products for complete fulfillment of planned production quotas and sales quotas.

3. Continued Adherence to Reform and Opening to the Outside World To Enhance Self-Development Capabilities

The communique of the 4th Plenary Session of the 13th Party Central Committee said, "Reform and opening to the outside world is the way to strengthen the nation. It must be carried out unflaggingly as always, with positively no return to the old road of sealing off the country." Without reform and opening to the outside world, the country has no way out. Unless Tibet reforms and opens to the outside world, it will likewise have no way out. We must further carry out this overall plan and overall policy of reform and opening to the outside world into every aspect of work in this region.

Strengthening and improving macroeconomic control is an important part of economic system reform, and it is also an urgent need in opening to the outside world. Currently, we are in a period of overlapping and changing paths between new and old systems, during which a certain amount of chaos has occurred in certain fields of economic life. Strengthening and improving macroeconomic control has become a pressing need. Therefore, in the course of improving the economic environment and restructuring the economic order, we must follow the principle of both invigorating and restricting, and both opening to the outside world and controlling, applying multiple economic, administrative, legal, disciplinary, and ideological and political work techniques, keeping completely alert, and strengthening and improving macroeconomic control. We must continue to carry out resolutely the six temporary regulations for macroeconomic control that the autonomous region's people's government promulgated in 1989 to

improve the chaotic state existing in the circulation of important products and uniformly allocated materials. We must further reinforce the role of overall economic departments concerned with government finance, planning, and finance and banking, strengthening control over the use of government funds and credit funds invested in key construction, and achieving all-around balance to ensure the healthy development of key construction and various undertakings. We must strengthen centralized and unified leadership to ensure that government orders are unimpeded. In important decisions and important actions for reform and construction, government at all levels, and economic departments at all levels, must adhere to the principle of parts being subordinate to the whole situation, and of orders and prohibitions being strictly enforced.

The pace of enterprise reform must be speeded up. In accordance with the policy of improving the economic environment and restructuring the economic order, and autonomous region people's government 1989 views on the deepening of enterprise reform, the current emphasis in enterprise reform is as follows: Continued deepening of enterprise internal reform, doing a solid job of promoting and perfecting contract management responsibility systems and plant manager responsibility systems. Progress in contracting should be accelerated, the goal being to have 80 percent of all kinds of enterprises throughout the region doing contracting by the end of 1989. The technical transformation of enterprises should be accelerated, impetus given to technical progress, the various norms for technical progress incorporated into contract agreements and the goals of plant managers during their incumbency, enterprises relying on technical progress to improve their labor productivity rate and improve product quality. Enterprise administration should be improved further to solve problems, including the squandering of human talent, lax labor discipline, high materials consumption, and low efficiency in the use of funds. Shortsightedness in departing from reform goals is to be corrected for an all-around increase in enterprises' production and operating performance.

The lessons of experience gained in farming and pastoral region reform during the past several years should be diligently summarized. They should be closely studied, and specific plans formulated for the deepening of reform in farming and pastoral regions. Forces should be organized to draft an Eighth 5-Year Plan for the region. Reform plans for prices, tax collection, government finance, finance and banking, wages, and a labor use system should be carefully and closely discussed in preparation for future economic development and associated reforms.

Simultaneous with reform of the economic system must be continued adherence to the policy of opening to the outside world, with vigorous development of lateral economic links and cooperation as usual, active development of foreign trade and tourism, experiences being ceaselessly summarized to open up fields for gradual enhancement of our own development capabilities.

Vigorous impetus for lateral economic links and cooperation is needed. Leaders at all levels should further appreciate the rule of lateral relationships and economic cooperation in the region's economic construction. They should think in terms of lateral links, diligently implementing the spirit of the Sixth Five-Province (or Region) Six-Party Economic Cooperation Conference to make full use of the advantages the region enjoys in resources. They should take energetic action in implementing preferential policies, benefiting from the flexible methods that policies permit in the use of credit funds, enterprise funds, and locally retained foreign exchange in the broad development of economic partnerships and cooperation among one area and another, one trade and another, and between one province and another, importing advanced technology, advanced management, and advanced equipment for the prospecting and rational exploitation of resources. They should process raw and processed materials in varying degrees. They should trade products for which the region enjoys advantages for materials in short supply needed to build the region's production and in the daily life of the people. They should allocate materials equitably, constantly improving enterprises' self-development capabilities to hasten development of a commodity economy. In addition, various avenues and means should be used to acquire international assistance and bring in foreign capital. Every means should be employed to complete international assistance projects, and projects using foreign capital for which agreements have been signed. Efforts must be made to attain anticipated results in order to heighten prestige to develop broad prospects for getting further international assistance and the use of foreign capital.

A sustained development of foreign trade should be ensured. For some time to come, effective measures must be adopted with regard to exports in order to do a good job in building export production bases to ensure basically consistent sources of supply of export wares. Firstly, various effective ways and means should be used to do a good job in producing and purchasing local livestock products for export. Secondly, while paying close attention to traditionally hot-selling export products, we should steadily provide new varieties of exports in accordance with changing international market demand and resources in the region. Thirdly, there is the need for gradual readjustment of the export product mix, doing all possible to reduce the percentage of products in the nature of raw resources while actively doing initial processing of cadmium ore, cow hair, and cashmere products, steadily improving processing capabilities for increased foreign exchange earnings. At the same time, trade with neighboring countries should be expanded in a planned, step-by-step way. We should decide imports on the basis of the region's need to build production and to improve supply services, giving close attention to the allocation of materials.

We should actively develop tourism provided the situation in Lhasa remains stable. We should organize in a

planned, step-by-step way the entry into Tibet of organized tourist and mountain-climbing groups within the region's ability to care for them. In the present situation of insufficient tourists, tourism departments at all levels should not only train tourist service personnel, but should also actively diversify to expand the scope of services to increase economic returns.

In the opening to the outside world, further work should be done on external affairs. A good job should be done on border controls, upholding centralized and unified leadership, strictly enforcing external affairs discipline to promote economic and cultural exchanges and cooperation between our region and other countries and regions to spur the economic construction of the region.

III. Adherence to the Four Basic Principles for Better Building of Socialist Spiritual Civilization

The building of spiritual civilization is an important matter having a bearing on the success or failure of socialism. While giving close attention to the building of socialist material civilization, it is necessary to give close attention to the building of socialist spiritual civilization as well, conscientiously opposing bourgeois liberalization and vigorously intensifying ideological and political work. The building of the two civilizations should be mutually linked and mutually promoting, the state of affairs of toughness in pursuing one and softness in pursuing the other resolutely corrected.

1. Intensifying Ideological and Political Work To Make the Most of Political Advantages

Genuine intensification of ideological and political work is an important insurance for doing all work well. Comrade Deng Xiaoping said, "The biggest mistake made in 10 years was in education, and by this I mean mostly ideological and political education, not just with regard to schools and young students, but education of the people in general. There has been too little education about arduous pioneering work, about what kind of country China is, and about what kind of country it should become. This was our very great mistake." We must assimilate this lesson.

Intensification of ideological and political work requires, first of all, the carrying out of in-depth and sustained education in the four basic principles among all cadres, staff members and workers, and the masses to oppose bourgeois liberalization. The four basic principles are the foundation for the country. People of all nationalities throughout the region should further realize that upholding the socialist system is a fundamental guarantee of the interests of the broad masses of working people. Departure from the socialist system will mean the reduction of our socialist motherland to an international capitalist dependency. They should realize that in today's world in which economic construction is crucial, although the class struggle is no longer the main contradiction, the class struggle will nevertheless exist for a long time in a certain realm, as a result of domestic factors and international influences, and can intensify

under certain conditions. Therefore, the people's democratic dictatorship positively cannot be weakened, much less abandoned; otherwise, it will be impossible for our modernization to proceed smoothly in a stable social climate. They must realize that in China, were it not for the leadership of the Communist Party of China, the country would have no future and the nationalities no hope, much less would Tibet prosper and advance. They must realize that Marxism and Mao Zedong Thought are the theoretical foundation that guides our thinking. They are our ideological guarantee for winning victory in the revolution and in construction, and they can never be lost. Were they to be lost, our revolution and construction would lose their bearing. In conducting education in the four basic principles, it is necessary to conduct patriotic education in breadth and in depth in which safeguarding the unity of the motherland and strengthening the unity of nationalities are the main ingredients, traditional education in which self-reliance and arduous struggle are the main components, and education in the rule of law to abide by discipline and obey the law. Propaganda and education should be used to stir a high degree of zeal among the people of all nationalities to love the motherland ardently, to love Tibet ardently, and to stir a spirit of self-arousal to forge ahead in the building of Tibet to make Tibet flourish. Schools are important grounds for building spiritual civilization. Schools at all levels and of all kinds are to make the foregoing education an important part of moral education, linking teaching from books and educating people, the students we train will thereby be able to uphold the four basic principles, to identify and resist the bourgeois liberalization trend of thought, to become ideal, virtuous, cultured, and disciplined new "four halves" people. This holds particularly important, far-reaching significance for the development of our endeavors and the country's future.

Ideological and political work is a fine tradition of our party; it is where our true superiority lies. Governments at all levels should devote the same serious attention to ideological and political work that they devote to economic work, making ideological and political work a genuinely important part of their daily agenda. All social forces should be mobilized to play a role in all regards, jointly performing ideological and political work. It is necessary to devote serious attention and to buttress the building of an ideological and political work corps, to look after and protect ideological and political work cadres, to support their work, and to arouse their enthusiasm to the full. Numerous precious basic principles and experiences in ideological and political work from the past should be linked to today's realities and conscientiously upheld and applied. In addition, the content and methods used in ideological and political work should be explored anew to make it more diverse, more lively, more related to reality, more pertinent, and more welcome by people. In propaganda and education today, equal emphasis should be given to inculcation and guidance. On the one hand, the content of education should be constantly inculcated in the masses, serving to

exert a subtle influence on them. On the other hand, the principle of guidance is to be upheld, strengthening the dialogue with the masses, fathoming their thoughts, and dissolving contradictions. Newspapers, radio broadcasts, and television are powerful tools for intensifying ideological and political work. More should be done to guide public opinion and more attention paid to the results of propaganda to make a needed contribution to the improvement of ideological and political work.

2. Development of Education and Scientific and Technical Endeavors and Doing Good Cultural Work

Education is the strategic strongpoint in the modernization of Tibet. It is crucial in giving impetus to the region's scientific and technical progress, to invigorating the economy, and to advancing social development. Without the development of education, not only will spiritual civilization go nowhere, but the building of the economy will also lack reserve strength. Government, departments, and all trades and industries at all levels must further increase their appreciation of education. They must show concern for and support the development of education.

For some time to come, the main task in educational work will be to carry out fervently the spirit of the State Council Second Work Conference for Educational Support to Tibet, and the Autonomous Region Third Educational Work Conference, actively and carefully carrying out educational reform work in accordance with plans to "emphasize the bolstering of basic education, giving priority to the development of teacher education, actively developing professional and technical education and adult education, and consolidating and improving higher education."

While giving close attention to middle and primary school education in response to the requirements of the autonomous region's Trial Views on Improving Basic Education in Tibet, efforts should be made to create conditions for the gradual institution of compulsory education in different areas during different years. Active efforts should be made to do a good job in vocational and technical education, attention being given to continuing on-the-job education of staff members and workers to improve worker quality and to the training of people awaiting jobs in advance of their employment. The content of specialized training should be steadily enlarged as the society requires, all sorts of qualified talent being trained in many fields at many different levels for economic construction. Along with improved basic education in farming and pastoral region middle and primary schools, some practical technical education to meet the special needs of farming and pastoral regions should be given. Institutions of higher learning should continue to offer specialized subjects in the spirit of consolidation, filling out, and improvement to augment the teaching corps, improve educational techniques, improve educational quality, administration, and benefits derived from education, to accelerate

the training of teachers for basic education and vocational and technical education, to serve basic education, and to serve economic construction.

Efforts need to be made to train an ideologically superb, professionally proficient teaching corps. This is an urgent task in the overall improvement of educational quality in the region, and for the training up of qualified socialist new "four haves" people. In the building of the teaching corps, the principles of filling out, consolidation, and improvement should continue to be followed. There should be both genuine improvement and development of teacher education, and a planned, step-by-step training of teachers, particular attention being paid to the training of ethnic teachers to meet the need for "bilingual" instruction. As a result of fairly long efforts, a qualified and stable teaching corps made up primarily of Tibetans can be gradually built that is sufficiently large in size and has a rational structure. Measures should continue to be adopted to improve teachers' working and living conditions.

In order to better develop education, the government will gradually increase investment in education within the limits of its capabilities. Additionally, management of education funds has to be improved so that maximum benefit is gained from the investment of limited funds.

In today's world, science and technology has increasingly become a revolutionary force propelling historical advance, and it has become an important indicator of a people's level of civilization. We must more consciously rely on science, carrying forward a spirit of respect for science and the quest for knowledge. We must further strengthen leadership of scientific and technical work, give serious attention to the building of a scientific and technical corps and the training of skilled persons, using experiences summarized from the operation of pilot projects in conjunction with the region's realities to carefully and deftly promote reform of the scientific and technical system. We should concentrate talent and funds in a concerted scientific and technical assault on key scientific and technical projects throughout the region and on "spark" and "bumper harvest" plan projects, actively spreading the application of skills and scientific and technical achievements, translating them into productivity as quickly as possible to promote the economic development of the region.

Problems in education, and in science and technology are, in fact, problems of individual talent. With the gain of talent comes improvement; with the loss of talent comes decline. The development of prosperity comes only with the application of talent. We must fully and correctly learn the criteria for using people properly, strive to improve the human talent management system, adopt realistic measures to solve the uneven distribution of human talent, the professional balance, and the use of people in fields that exist in the region other than those for which they were trained. We must create a social atmosphere in which people are used to the full extent of their abilities, and talent is fully used to make further use

of the role of talented people of all kinds in building the economy. The discovery, training, assimilation, use, and safeguarding of talent should be an important matter to governments at all levels, and play a major part in evaluating the official career achievements of cadres at all levels. A fine social atmosphere of love for talent, respect for talent, and use of talent should be created to encourage and attract more scientific and technical talent to provide ideas and devote efforts to the economic construction and social progress of the region.

Cultural work is an important part of the building of spiritual civilization. Cultural work must uphold an orientation of serving socialism and the people, carry out a policy of letting a hundred flowers blossom and a hundred schools of thought contend, and carry on and carry forward the fine ethnic cultural tradition to promote the development and flourishing of cultural endeavors. More should be done to restructure, control, and build cultural markets, to stamp out reactionary and licentious things, and to oppose the corrosion of feudalism and capitalist decadent ideology. Extremely close attention should be devoted to the development of news, publishing, radio broadcast, film, and television endeavors to make full use of the important role of all media in the building of spiritual civilization. In the performance of propaganda work, propaganda and public opinion departments should take a clear-cut stand in upholding the four basic principles, oppose bourgeois liberalization, completely and correctly publicize the party and government line, plans, and policies, and adhere to correct public opinion guidance. Further development of medical and health endeavors is needed, diligently carrying out a policy of "prevention first," and genuinely improving medical and health work in farming and pastoral areas to improve the people's health standards. Attention should be given to planned parenthood, a good job being done in diligent propagandizing and educating the public in fine births and fine education to improve the quality of the population. Energetic efforts should be made to launch a mass physical education campaign to rise the region's physical education activities to a new level.

3. Good Performance in the Building of Clean Government, Guarding Against and Eradicating Corruption

Opposition to corruption and maintenance of honesty is both an important part of the building of political power and an important issue about which the masses of people are extremely concerned. Whether or not government organs are honest is not just an economic issue or a work style issue, but also has a bearing on the government's image, whether the government has popular support, the success or failure of reforms, and the stability of the social situation. In a region such as ours, in which the struggle against splittists is sharp and complex, the rooting out of corruption and the maintenance of honesty hold special significance. Not only are they urgent requirements in the building of spiritual civilization, but they are also necessary in the antisplittist struggle, and necessary in safeguarding the unity of the motherland, in

strengthening the unity of nationalities, and in realizing enduring governance and tranquillity in Tibet. Therefore, government at all levels should devote a high degree of serious attention to them.

Good performance in building clean government requires the resolute meting out of punishment for corruption. Government at all levels should organize forces now, devoting attention first to the issues that arouse intense popular reaction in the strict investigation and disposition of cases involving the misuse of authority for private gain, perversion of the law for personal benefit, graft, and bribe taking. They must use determination in meting out punishments for corruption to win the confidence of the people and to encourage the broad masses of cadres and people to have the confidence and courage to struggle against all kinds of corruption. In the investigation and disposition of cases, it is necessary to adhere to principles, to dare to act tough, not being concerned which units are affected or which cadres are involved, getting rid of all interference to conduct a thorough investigation. This work must be carried out with the power of a thunderbolt and the speed of lightning. Investigation of the facts should form the basis for dealing strictly in accordance with the law or political discipline. Those deserving punishment, no matter who, are to be punished, with positively no overleniency. The disposition is to be published for the masses, to serve the purpose of educating a large number through punishment of one.

Good performance in building clean government requires good performance in building a system. Good performance in building a system requires as a precondition digging out the soil and the hotbeds in which corruption grows and proliferates and plugging all gaps. A "two opens and one supervision" system has to be actively promoted for the establishment and perfection of a people's informer system that provides the masses with a place to report whenever they find clues to a case, to complain whenever they are attacked out of revenge, to report when difficulties and problems arise, and a channel for offering criticisms and suggestions. Leaders and departments concerned at all levels must conscientiously deal with and promptly handle reports from the masses. Work involving letters and interviews needs to be improved and intensified, and full use made of this work to make contact with the masses at all levels for vigorous propagandizing of the party and government plans and policies, and to report actively the complaints of the masses, truly becoming a bridge between the party and government and the masses, and an open channel for dialogue between leading cadres and the masses.

Opposition to corruption and going a good job in building clean government is a long-term, regular task. Government and government departments at all levels should put it on their daily agenda of important things to do, leading organs and leading cadres giving close and through attention to it. All staff personnel, particularly leading cadres at all levels, should firmly establish a psychology of serving the people with one heart and one

mind, and performing duties with complete impartiality, achieving a climate of hard work and thrift, carrying out government functions without waste, with no exceptions in the administrative system and no seeking of private gain in the exercise of authority, in order to establish an image of honesty and fairness among the people. Law enforcement and supervisory departments for industry and business administration, tax collection, prices, auditing, customs, business investigation, and public security should do more in the way of self-building, enforce the law impartially, and resolutely and effectively struggle against violations of the law and discipline. Supervisory departments should emphasize the supervision of clean government, making the use of their deterrent force to raise clean government work to a new level.

IV. Further Stabilization of the Situation To Create a Social Atmosphere of Tranquillity and Unity

Earnestly implementing the spirit of the 4th Plenary Session of the 13th CPC Central Committee to oppose turmoil and eradicate the effect on this region of the counterrevolutionary disturbances in Beijing, conducting a pervasive struggle against splittists, safeguarding the unity of the motherland, strengthening the unity of nationalities, further stabilizing the situation, and creating a social atmosphere of tranquillity and unity are the prime political tasks in the region at the present time. They are important prerequisites and fundamental guarantees for smoothly carrying out construction, reform, and all tasks. We must concentrate our energies to do a good job of them.

Good performance in stabilizing the situation requires further unification of ideology and improved understanding. Government at all levels and individual departments must organize the broad masses of cadres, staff members and workers, the people, patriotic persons in all walks of life, and young students for the diligent study of documents from the 4th Plenary Session of the 13th CPC Central Committee, Comrade Deng Xiaoping's speech, and the spirit of the enlarged meeting of the Tibetan Autonomous Region CPC Committee Standing Committee, which was convened not long ago. Study will enable people of all nationalities throughout the region to realize that the political disturbances and counterrevolutionary riots that an extremely small number of people stirred up by using campus unrest were positively not for the so-called promotion of democracy, acceleration of reform, and opposition to corruption. Instead, they were intended to overthrow the leadership of the Chinese Communist Party, and overturn the socialist People's Republic of China. Our struggle with them is a struggle about whether we adhere to a socialist road or establish a bourgeois republic completely subservient to Western powers. This is an earnest struggle that has ramifications for the future fate, life or death, and existence or demise of the party and the state. In the face of this struggle, every citizen, particularly state cadres, staff members, and workers, must maintain a clear head. They should make people of all nationalities throughout

the region realize that all of the several riots that have broken out in Lhasa during the past 2 years were provoked, instigated, and created by splittists inside and outside the country with support from certain hostile forces outside the country. Our struggle with the splittists inside and outside the country is a serious political struggle. It is a struggle with a hostile force. It is not an ethnic or religious issue, nor is it a human rights issue. This struggle affects the unity of the motherland, the unity of nationalities. It has a bearing on the future and the destiny of Tibet. It has a bearing on the fundamental interests of people of all nationalities throughout the country including the Tibetan people. On this issue of fundamental principles, we must take a clear-cut stand and have a solid standpoint. We must clearly realize that splittists inside and outside the country positively will not lightly change and abandon their reactionary position. Even though we do a good job, the economy develops, and the people's standard of living rises, they positively will not let matters rest. They will continue to vary their tactics, using all means to continue to cause disturbances and sabotage. We must be ideologically prepared to carry on a long-term struggle. We must make people of all nationalities throughout the region believe staunchly that ours is a unified country and that any plot intended to split the motherland is doomed to failure.

Stabilizing the situation requires firmly taking the initiative in the struggle, going all out in arousing the masses, and strengthening the people's democratic dictatorship for resolute struggle against an extremely small number of splittists and criminal elements who perpetrate riots and organize disturbances in a vain effort to split the motherland and topple the CPC. We positively cannot be softhearted. All units and departments must resolutely arouse and rely on the masses to ferret out and expose the criminals who created and disseminated reactionary rumors, wrote and disseminated reactionary leaflets, connived and schemed, and organized and directed riots, as well as committing serious damage to social order by fighting, beating, looting, setting fires, and killing during the period of the Lhasa riots and disturbances in various places throughout the country. Those criminals who have been brought to light are to be tried and resolutely punished in accordance with law by judicial units. Those who continue to engage in splittist activities are to be severely punished according to law. In this struggle, it is necessary to act strictly according to law, to draw a clear distinction between guilty and not guilty, using facts as a basis and the law as a standard. It is necessary to enforce policies resolutely and to distinguish strictly between the two kinds of contradictions, achieving through hard and painstaking work the unity of all people who can be unified, while isolating, exposing, and attacking the extremely small number of principal offenders and unregenerate diehards. Public security units, the people's armed police, and the PLA should maintain a high state of vigilance and be prepared at all times to deal with any kind of surprise from any quarter. When a disturbance occurs, no matter where,

they should resolutely and decisively suppress it. Stabilizing the situation requires unflinching attention to tackling matters in a comprehensive way. After the institution of martial law in Lhasa, production, work, and daily life were basically normal. The situation was beginning to stabilize. However, our struggle with the splittists was far from over. We had to continue to tackle the problem in a comprehensive way, carrying out a policy that combined offense and defense, punishment and education. We had to buttress control of public order, spur the socialization of work in preserving security, arouse forces in all quarters of society, institute mass prevention and control, organize joint defense for the preservation of order and peace preservation patrols, allocating defense tasks to all quarters of society. Genuine implementation of the principle of "the ones in charge are the ones responsible" was further established and put into effect. Various Forms of Responsibility Systems for Safeguarding Security. Good work in stabilizing the situation requires the strengthening of socialist democracy and the building of a legal system. Democracy and the law are inseparable. A legal system without socialist democracy is positively not a socialist legal system. Democracy without a socialist legal system also is positively not socialist democracy. All disturbances run fundamentally counter to the interests of the people, and are opposed resolutely by the masses of the people. While genuinely ensuring the democratic rights of the broad masses of people, it is necessary to continue pervasive education in the rule of law to strengthen the people's concepts of the rule of law and citizen awareness to handle matters willingly according to law. Governments and departments at all levels must take the lead in observing discipline and abiding by the law, simultaneously supporting and supervising judicial administrative departments in every way in the exercise of their authority according to law. By tackling the problem of social order in a comprehensive way, and by strengthening the building of democracy and the rule of law, they can further stabilize the situation in Tibet to bring about long-term governance and enduring peace.

In the struggle to stabilize the situation, full use should be made of the role of grassroots organizations, closely relying on cadres and the masses at all levels, who are a main force in the struggle against splittists. It is necessary to continue to adhere unswervingly to the rallying of top-level ethnic and religious patriots to make use of their role in the struggle against splittists. In the course of the struggle, public security and people's armed police units should unceasingly improve their political and professional qualifications, improve their understanding of policies and of discipline and the law, rigorously maintaining vigilance to meet the needs of struggle. In addition, the broad masses of people must be educated to realize fully the important role of public security and people's armed police forces, and the PLA in consolidating national defense and stabilizing the situation. Campaigns should be launched to study, ardently love, and support the PLA, to safeguard its image, and to support it. So long as we unite all forces that can be

united, jointly deal with splittist forces, the struggle to stabilize the situation will certainly achieve ultimate victory.

Along with doing a good job in stabilizing the situation, it is necessary to continue to do a good job in nationalities and religious work, strengthening the unity of nationalities. Doing a good job in nationalities and religious work to strengthen the unity of all nationalities holds extremely important significance both in stabilizing the current situation and in the further building of the region's economy. The core of the party's nationalities policy is for all nationalities to develop together and prosper together from a foundation of equality, unity, and mutual assistance. A fundamental requirement in the unswerving implementation of the party's nationalities policy is to diligently carry out the Nationalities Areas Autonomy Law, continuing to consolidate, strengthen, and develop new socialist nationality relationships of equality, unity, and mutual assistance. It is necessary, in accordance with the requirements of the Constitution and the ethnic areas autonomy law, to continue to strengthen government legal system work, studying and formulating administrative regulations in keeping with realities in Tibet and commensurate with requirements for economic and social development. Also necessary is further improvement of the nationalities areas autonomy system to ensure that people of all nationalities in Tibet exercise their rights to autonomy in political, economic, and cultural matters, and in their daily life. More must be done to train minority nationality cadres to improve the political and ideological quality and the scientific and cultural quality of ethnic cadres. At all times and in all respects, it is necessary to proceed from the maximum interests of the masses of all nationalities in Tibet, respecting the Tibetan people's cultural tradition, habits, and customs. Various Regulations (Trial) on the Study, Use, and Development of the Tibetan Language in Tibet and attendant detailed rules and regulations should be conscientiously implemented to hasten the study, use, and development of the Tibetan language. The party's policies on religion should be completely and correctly implemented to safeguard normal religious activities, and lingering problems in policies toward religion and temples should continue to be solved. In addition, religious activities must also be activities within the purview of the Constitution and the law. They must be subject to government leadership and control. Any conduct that makes use of religious activities to injure the unity of the motherland, to damage the unity of nationalities, to damage social order, to disturb the building of production, to impair the health of the citizens, and to hamper the national education system will not be permitted.

Safeguarding and strengthening the unity of nationalities is the sacred duty of each individual. It is a fundamental assurance of the vigorous development of Tibet and realizing long governance and enduring peace in Tibet. The key to strengthening the unity of nationalities lies in

the strengthening of unity among the cadres, staff members, and workers of all nationalities. Cadres of all nationalities working in Tibet share a common goal and their interests are identical. All nationalities should treasure the inseparable, close relationships formed over a longer period of time, upholding the principle that the "Han race cannot get along without the minority nationalities, and the minority nationalities cannot get along without the Han race." Cadres of all nationalities should respect each other, learn from each other, help each other, look after each other, support each other, and understand each other, everybody of one mind and of one will, doing a good job together. When this or that conflict arises among cadres or people of different nationalities, it should be analyzed by seeking truth in facts, the specific problem being dealt with, without sweepingly making every problem a nationalities problem. Whenever words or actions impair the unity of nationalities, no matter the nationality or the person involved, leaders at all levels should dare educate, criticize, and handle the situation boldly and assuredly. Those who use nationalities issues to provoke discord that damages the unity of nationalities is to be resolutely exposed and attacked. Along with the strengthening of the unity of nationalities, we must also strengthen further the unity of the armed forces and the government, the armed forces and the people, and so on. As long as we unite as one from top to bottom throughout the region,

we have the power to overcome all sorts of difficulties, remove all obstacles and interferences, and move ahead with all tasks.

Delegates! During the period between this conference and the third session of the fifth autonomous region People's Congress, generally speaking, government work will continue to resolutely carry out the basic line of "one center and two basic points" decided on by the 13th National Party Congress, will carry out the guiding ideology of "grasping with both hands" contained in the CPC Central Committee instruction titled, "Several Problems in Current Work in Tibet," will take a clear-cut stand in upholding the four basic principles, oppose splittism, oppose disturbances, stabilize the situation, and safeguard the peaceful and unified political situation. It will focus on improving the economic environment and restructuring the economic order in further adherence to reform and opening to the outside world, and develop social productivity to bring about sustained, consistent development of the economy of the whole region. As long as people of all nationalities throughout the region unite as one, are of one heart and one mind, rally their spirits, clear away obstacles, and do a solid job, we will certainly be able to make new strides along the road to building a unified, wealthy, civilized socialist Tibet.

President Li Cautioned Not To 'Interfere' in Local Election

90ON0045A Taipei TZULI WANPAO in Chinese
19 Aug 89 p 5

[By Lin Hsing Yi]

[Text] *It is not necessary for the ruling party to treat elections like a war and be on first-class alert. It is often the case that all kinds of violations or cheating may occur under such extreme frustration. Yet, how can the party assist the government in organizing the election well with a "normal" and "ordinary" attitude of "justice, fairness, and glasnost"? It is the phenomenon created by this intensified power struggle and the sway of the party's gain or loss that causes the head of the country to get involved in a county chief election.*

Newspapers reported that ruling party president Li Teng Hui was "overly concerned" with the situation in the Taipei County Chief election and he ordered the ruling party's election assistance team to "interfere" in the election and opened a defensive war with full swing. Due to the alleged "interference," Yu Ch'ing, current legislative representative of the Democratic Progressive Party and also a candidate in the Taipei County Chief election, especially expressed his concern about this matter in his letter to Mr Li Teng Hui on the 19th, saying, "It is very inadvisable for President Li, as head of the country, to interfere in a county chief election." If the allegations turn out to be true, I personally believe it would be better for the president to stay out of this business. My reasons are as follow:

First, the President's Personal Involvement Damages the Image of the President as an Upright Official

Mr Li Teng Hui may appear to be president of the ruling party and try to help one of the party members in the election as the head of the party. However, Mr Li is also head of the country, and people will think that the president of the country helped some particular person to run in the election. It will damage the credibility of the president if that person doesn't win in the election, yet, if he does, it will be an ugly win, anyhow. Furthermore, how can the residents of other counties think that the president was "especially concerned about" Taipei County only and helped the county chief election in Taipei County? It is still remembered that Mr Li Teng-hui did not vote for anyone in the first-round draft of the ruling party election, showing his impartiality and indifference. Would it not be better for Mr Li to just play the role of the head of the state, not campaign for anybody, and stay out of the general election of the government officials?

Second, the President's Personal Involvement Interferes With Local Autonomy

Generally, political parties in a democratic country try to gain control of offices through elections so that they will be able to accomplish their goals and pursue their policies. Of course, this applies only to national-level

elections. Local elections ought to be local, and have no connection with the power shift on a national level; and it is not always necessary for political parties to get involved. On the other hand, Dr Sun Yat-sen, the founding father of our country, also believed that local autonomy meant that local affairs were to be handled by the local people. He never mentioned that political parties should participate or assist in elections. Even though the area effectively controlled by the Kuomintang is small, covering only Taiwan, Peng Hu, Quemoy and Matsu Islands, while Mainland China has long been lost, the county chief and city mayor elections are still local elections, both theoretically and practically. Although it is all right for political parties to participate, it would be questionable for Mr Li, as head of the country, to join in and stir up the election.

Some Background Information About the Scandal

Elections have always been rather intense in Taiwan. Although the reason for this is partially because Taiwan is small, very densely populated, and everyone, whether young or old, must fight to succeed, it was very likely created as well by the way the long-time ruling party, the Kuomintang, treated elections. Elections are treated as "wars" by the Kuomintang, there is too much concern about the party's gains or losses, and opposition parties are treated like "enemies." Take the ongoing election as an example, in order to win this election battle, the Kuomintang even prepared a plan named after the "Normandy Invasion Plan," and regarded the regions where opposition parties won county chief or city mayor elections as "enemy-occupied territories." It certainly overreacted. Furthermore, the so-called special war zone, first- and second-class war zones, and other terms filled the newspapers and are especially damaging and unhealthy to social harmony. There will be no election if there is no competition. One must remember that elections are not for competition in bribery, violence, nor for denouncing the party and thereby splitting it, nor for burning party IDs, and above all, elections are not for competition in killing one another, especially those who oppose the party. On the contrary, elections are a kind of democratic, peaceful, ethical, rational, and gentlemanly competition, a competition where "the number of heads replaces the broken heads." It is not necessary for the ruling party to treat elections like wars and be on first-class alert. It is often the case that all kinds of violations or cheating may occur under such extreme frustration. Yet how can the party assist the government in organizing the election well with a "normal" and "ordinary" attitude of "justice, fairness, and glasnost"? It is the phenomenon created by this intensified power struggle and the sway of the party's gain or loss that causes the head of the country to get involved in a county chief election.

I suggest that President Li Teng Hui publicly address this "president assists county chief election" allegation, which is of much concern to the general public. If the reports are false, it is obviously necessary to clarify the

matter; it is also necessary to provide a satisfactory explanation to convince people.

Octogenarian Legislators 'Refuse' To Retire

*90ON0045B Taipei TZULI WANPAO in Chinese
23 Aug 89 p 2*

[Article by reporter Hsu Li-chuan 6079 7787 2494: "Is There Really 'No Way' To Talk the Senior Legislators Into Retirement?! A Recent Poll Shows That More Than Half the Senior Legislators Won't Change Their Minds Under Any Circumstances"]

[Text] Why do the senior legislators resist retirement? A recent poll showed that nothing would shake the determination of the senior legislators to hang on, no matter if they were offered the opportunity to set up a mainland representative system, if it were requested by the public, or if they were offered higher retirement compensation or honorary consultant positions. It showed, as a matter of fact, that as many as 50 percent of the legislators refuse to retire.

After disclosure of a list of 80 legislators recommended for retirement by the Personnel Augmentation legislator Li Sheng-feng [2621 0524 0023] today disclosed the report of a survey on senior legislators' retirement, which was conducted by the Public Survey, Culture, and Education Committee at Li's request.

This report is about a complete general survey among 1,070 legislators, elected representatives, and members of the Supervisory Board conducted through telephone interviews with them. Respondents numbered 168, 136 are elected representatives, 26 are legislators, and the rest are members of the Supervisory Board. The response rate was 30.8 percent.

The survey revealed the various reasons why the senior legislators do not want to retire. The reasons are as follows:

Setting up a mainland representative system: 22 percent considered it a factor, 44 percent did not.

The Kuomintang party committee's recommendation for retirement: 18 percent considered it a factor, 40 percent did not.

The request of the people in the Taiwan prefecture: 5 percent considered it a factor, 66 percent did not.

Raising retirement compensation: 2 percent considered it a factor, 71 percent did not.

Founding an honorary consulting institution and certifying the contribution of the person: 11 percent considered it a factor, 61 percent did not.

The survey also showed that the old legislators persisted, regardless of any offer.

To the question about why the old legislators refused to retire, replies were given as follows: 45 percent of those

interviewed said that they "wanted to continue to contribute their efforts to the country," and 38 percent believed that they were still in good health, but health may not be the most important factor, because 90 percent of them are believed to be in good condition.

As to the question of whether they have considered retirement, 45 percent of the elected representatives, 64 percent of the legislators, and 67 percent of the Supervisory Board members replied that they have not yet decided.

The responses of the senior legislators to the remaining questions are listed below:

About setting up a mainland representative system: 61 percent in favor, 14 percent opposed.

About their satisfaction with the retirement schedule: 54 percent satisfied, 17 percent not satisfied.

About the amount of retirement compensation: 1 percent think it is too much, 14 percent think it is okay, 3 percent think it is too little, and 70 percent had no comment.

The response of the legislators' relatives regarding the retirement of the legislators: 11 percent in favor, 10 percent opposed, and 71 percent had no comment.

The response of colleagues: 4 percent in favor, 22 percent opposed.

Pressure Rising To Suppress Underground Investment Companies

40060709B Hong Kong CHING CHI TAO PAO in Chinese No 30, 31 Jul 89 p 23

[Article by Zhang Yi 1728 1837: "Heavy Pressure To Ban Underground Investment Companies"]

[Text] The underground investment companies, considered a malignant tumor in Taiwan's economy, are about to meet their fate. Recently, there is unending clamor for Taiwan's authorities to ban these companies; all large newspapers, one after the other, have published critical comments. In our last issue, we provided information on the development of the underground investment companies and on the situation of Taiwan's authorities' intention to order suppression of them. The present article will explore the subject further.

An Economic Tumor

Underground investment companies are financial organizations that have been established illegally. The methods of their business operations and the ways they make use of capital funds are shrouded in secrecy. Their occurrence has of course played a certain role in Taiwan's economy, but the way their existence has had adverse effects on the economy, on society, and on thought and morality of individuals has also aroused social concern. It is for these reasons that Taiwan's authorities intend to order their suppression.

Major reasons why underground investment companies have become a malignant tumor in the economy is that they attract investors by offering interest rates that are many times higher than the rates the banks offer, and that after absorbing a huge amount of the floating capital, they will not guide these funds to be used in proper ways. They will not use them as investments in productive enterprises, but rather direct them to the share market, to the real estate market, and to trading in so-called futures, which almost amounts to gambling, engaging in the big "fry" [slang for "speculative transaction"] and special "fry," with the result that they continuously drive up prices for shares, for real estate, and for commodities, thus seriously disturbing monetary order. Since there is easy money to be gained in these investments, it gradually lures people away from proper productive activities and has them crave speculative activities, possessed by greed and averse to diligent work.

Second, the investment companies continuously take in new deposits to pay interest to old depositors and for withdrawals, which is a kind of "robbing Peter to pay Paul." At the same time they use part of their funds to invest in highly profitable and highly risky real estate, shares, and in the futures market. Because underground investment companies bear full responsibility for their losses, their financial structure is rather frail, and as soon as one of their investments suffers a setback, the investors will have to bear the full loss. Moreover, since underground investment companies are not supervised and controlled, it happens frequently that some unscrupulous company executive will embezzle company funds and decamp, leaving behind an empty shell, so that numerous investors will lose all their money. It is said that since the last 1 and 1/2 years, 42 investment companies have had to suspend payments (or have experienced panic withdrawals) or have been involved in cases of fraud and deceit. They had absorbed floating funds to the amount of NT \$14.7 billion [New Taiwan dollars], and over NT \$4.8 billion of these funds have been misappropriated by company executives.

Moreover, in order to keep alive, and continue to expand and develop, underground investment companies will operate in both legitimate and illegitimate ways. As far as society at large is concerned, many will have links to elements of the underworld and engage in illegitimate speculative activities. As far as politics are concerned, they maintain contacts with lawless officials and act in collusion with them. This kind of behavior is bound to create a murky and decadent political situation, social chaos, and social problems of a daily growing severity.

A Storm Is Coming

Suppression of the underground investment companies and returning local financial trade to its proper track will undoubtedly be beneficial for the development of Taiwan's economy. However, since the underground investment companies have a history of 7 years, and are also very brisk operators, with extremely large funds involved

in the great variety of their activities, also pertaining to a considerable breadth of area, their suppression presents great difficulties. As soon as the news of their suppression was out, it caused a great upheaval on Taiwan Island.

On the one hand, many investors, seeing a threat to their savings due to the suppression of the investment companies by the authorities, rushed to withdraw their funds, and many medium and small-scale underground investment companies have had to close down, as they were unable to withstand these panic withdrawals by their investors. Even the so-called "big shot" Hongyuan Group was compelled to close down early in July because investors withdrew NT \$15 billion (\$580 million), and several of the largest underground investment companies too had to suspend withdrawals.

On the other hand, there was an immediate reaction on the Taiwan stock market as well. The weighted index, which reflects trends on the Taipei stock market, slid down very fast. In mid-June, the weighted index had exceeded 10,000 points, but recently, under the onslaught of the ban on underground investment companies, it repeatedly fell by almost 2,000 points, and transactions were reduced to one-half, tumbling down through the large psychological barrier of 8,000 points. Some predict that within 15 months, readjustments are bound to occur in the Taiwan stock market, and that real estate prices will also fall forthwith.

Because of the fact that many Taiwan underground investment companies have invested in Hong Kong, Macao, and Southeast Asia, these places will also be affected by Taiwan's suppression of underground investment companies.

It is said that among the personalities that have invested in the underground investment companies there are important members of party and government, also more than half of all military personnel, government employees, and teachers, in office or in retirement, as well as members of their families. They are the most loyal supporters of the ruling KMT [Kuomintang], and many of them are venting violent resentment against the official ban on underground investment companies, because of the heavy losses this will entail for them personally. This resentment can gradually take a political direction: at the year-end elections, some intend to boycott the ruling party; others threaten they will take matters into their own hands and demonstrate in the streets; others again let it be known that if the authorities will kill off all investment companies, they will organize all investors to withdraw from the KMT... In short, there is a storm coming.

A Dilemma That Must Be Resolved Cautiously

What course will have to be followed in this matter of the underground investment companies? As to the present suppressive measures, opinions differ and reactions vary. Some fear a financial turmoil; some emphasize that suppression will not solve the basic problem of the

excessive floating capital funds. They suggest that the investment companies open their account books, reassess their assets, make all their business operations transparently clear, and in future refrain from absorbing floating capital from among the general public, i.e. bring them to assume legitimate ways. Others again believe that while it is an excellent plan to eliminate the underground investment companies and restore, correspondingly, normal operations in the economy, there has to be a buffer period, and action must not be taken with undue haste.

The wave of bankruptcies that may occur as a consequence of shutting down the underground investment companies will undoubtedly deal a blow to shares and real estate, and a considerable range of vested interests will suffer losses. However, some experts and scholars believe that it is necessary to close down the underground investment companies. There is, for instance, Yu Hsueh-ming [0151 7185 2494], assistant professor of economics at Taiwan University, who believes that in consideration of Taiwan's present economic strength, any harmful effect of bankruptcies among investment companies will not be as serious as imagined. If the action will restore economic order, rectify the general mood of society, it will in the long run be beneficial for the future political and economic development.

Hou Chia-chu [0186 1367 7467], professor at Tungwu University, in a special column of the CHING-CHI JIH-PAO, presented four proposals to the authorities to solve the problem of shutting down the underground investment companies:

1) Suppression of this illegal accumulation of deposits must be a long-term undertaking and not hastily attempted within a short time, so as to avoid any unnecessary shock that an impetuous assault would cause. 2) According to the present, or initial stage, suppression must first be limited to cases that have been exposed and reported, in order to restrict the effects of the initial strike. 3) All units involved must not "play football" with each other, and the entire job must also not be left to only the judicial and police units, but must be apportioned according to the spheres of duties of the particular departments concerned, which shall then on their own accord start rectifying the situation, and all serious cases shall be transferred to the judiciary to deal with. 4) All unproductive activities of these companies should be strictly guarded against and curbed.

Taiwan's authorities have repeatedly expressed their resolution to suppress the underground investment companies, but later had misgivings about it because of the wide ramifications of the problem and large pressures against any such action. Will the plan of suppressing the said companies after all be put into effect? What is the appropriate way to deal with the problem? These are indeed questions that have to be dealt with cautiously.

Demonstrations Staged in Taipei

OW0211092089 Taipei CHINA POST in English
25 Oct 89 p 11

[Text] Two different groups demonstrated in front of the Legislative Yuan building in Taipei yesterday to demand government protection of local fishermen fishing near the Sankaku Islands, and the abolition of military rule on the offshore islands of Quemoy and Matsu, respectively.

Eyewitnesses said some 100 members and supporters of the China United Alliance protested outside the legislature building to demand the government "maintain the integrity" of Chinese territories and to protect the interests of local fishermen operating in the area.

The group, led by Hsieh Hsueh-hsien, executive director of the Young China Party, and Worker's Party Legislator Wang Chin-ping, said Japan should not continue occupying the Sankaku Islands (Tiao-yutai) by force. They also criticized the government for tolerating the beating of local fishermen by their Japanese counterparts near the islands.

The protesters later went to the Interchange Office in Taipei, Japan's unofficial embassy here, and delivered a letter of protest to the office, eyewitnesses said.

In a separate demonstration in front of the legislature building, a group identifying itself as the "Quemoy and Matsu Alliance" demanded that the government abolish military rule on the two islands.

They said the people on the two islands have been under military control since 1949, and demanded democracy and freedom such as the people on Taiwan proper enjoy.

Quemoy and Matsu, off the coast of Fukien Province, have remained under military rule as they would comprise Taipei's front-line defense in case of an attack by Communist China.

Meanwhile, some 20 residents near the Jade Reservoir in Taipei County yesterday demonstrated in front of the Taipei City Council building to demand "reasonable compensation" from the government for expropriated land.

They said the government failed to compensate them adequately for land it expropriated in 1979.

Letter to PRC on Repatriation at Center of Dispute

*HK2610022789 Hong Kong SOUTH CHINA
MORNING POST in English 26 Oct 89 p 1*

[By Fanny Wong]

[Text] The Hong Kong Government did not give any new undertaking or concessions to China to end the dispute over the repatriation of illegal immigrants.

This is revealed by the text of a letter sent by the Government's political adviser to a senior China representative on Monday.

The letter is at the centre of a dispute between the new China News Agency (NCNA), China's de facto embassy, and Hong Kong.

The NCNA claimed it was a "written commitment" made by the Hong Kong Government to gag anti-Beijing dissent as part of the deal to resume repatriation of illegal immigrants, and accused it of acting dishonourably and irresponsibly.

However, the letter merely reiterates the Government's long-standing policy of not allowing the territory to be turned into a base for subversive activities against China.

"The Hong Kong Government has no intention of allowing Hong Kong to be used as a base for subversive activities against the People's Republic of China," it states.

The letter was sent by Political Adviser William Ehrman to Mr Ji Shaoxiang, head of the NCNA's Foreign Affairs Department, on Monday, the day agreement was reached on resuming repatriation after an abrupt 16-day suspension.

To convince the Chinese about Hong Kong's sincerity, Mr Ehrman's letter said the NCNA will have noticed the arrest of members of the April 5th Action Group, low key Double Ten celebrations, and refusal of a site for a replica statue of the Goddess of Democracy.

This was suggested as a demonstration of the Hong Kong Government's prudence in handling delicate political questions.

The Hong Kong Government stressed that no group would be tolerated any more than the law allowed.

This meant that as long as groups did not break local laws, they would not be penalised and that the Government would tolerate dissent.

The Government was indicating that it wasn't prepared to clamp down on pro-democracy activities or group such as the Hong Kong Alliance in Support of the Patriotic Democratic Movement in China as long as they act in accordance with Hong Kong law.

Nevertheless, this particular reassurance to China could rekindle suspicions that the police move against the April 5 Action group and the subsequent seizure of tapes from the two television stations was designed as possible appeasement to China, even though the latter incident was not mentioned in the letter.

Political commentator, Dr Joseph Cheng, said: "To put rule of law considerations almost on a par with political ones is a dangerous sign."

"When police actions are presented to China as reassurances that its interests and concerns would be respected, this is dangerous."

"The exchanges between China and the Hong Kong Government have left people bewildered as to the actions of the authorities," Dr Cheng said.

However, both Hong Kong and China said yesterday that they wanted to end the war of words.

"As far as we are concerned, we have nothing to say. The matter has been resolved," a Hong Kong official said.

"The matter is over, we don't want to argue any further," a locally based NCNA official said. "The more one talks, the darker the picture becomes".

The wish to resume normal relations was evident in the editorials of yesterday's two Beijing-controlled newspapers, TA KUNG PAO and WEN WEI PO.

"Now the two sides should really look forward and avoid getting caught in meaningless arguments and try their best to restore and promote co-operation on other matters," the TA KUNG PAO said.

Executive and Legislative Councillors agreed that both sides should end the war of words.

Executive Councillor Dr Daniel Tse Chi-wai urged mutual understanding between China, Hong Kong and Britain in handling problems arising during the transition.

Fellow Exco [Executive Council] member Miss Maria Tam Wai-chu said: "I'm very glad to see that things are now back to normal. I don't see any particular virtue in having another verbal exchange."

"As long as the illegal immigrants are removed from Hong Kong and freedom of speech is maintained, I really don't believe any battle of words will be productive whatsoever.

Senior Legislative Councillor Allen Lee Peng-fei said: "The most important thing was that China was willing to take back illegal immigrants."

Legislator Dr Leong Chehung, however, said: "Hong Kong people have been confused and concerned. We have been hearing conflicting stories from different sources, which is in now way helpful to the already failing confidence of Hong Kong people."

He urged the Government to clarify the issue.

Yesterday a second batch of 150 illegal immigrants were sent across the border at Man Kam To, but the arrival rate remained high.

Up to 5 am yesterday 114 illegal immigrants were arrested, bringing the total being held for repatriation to 987.

If the present rate of repatriation continues, immigration officials are hopeful that the backlog since the repatriation program was suspended on October 8 will be cleared within a week.

The program was suspended in retaliation for Hong Kong allowing mainland swimmer Yang Yang to go to the United States.

Editorial on Issue of Illegal Immigrants

HK2610023389 Hong Kong SOUTH CHINA MORNING POST in English 26 Oct 89 p 20

[Editorial: "Letter Answers Claim But Confuses the Issue"]

[Text] The disclosure of correspondence between the Hong Kong Government and the New China News Agency has further muddled the controversy over the rights and wrongs in the war of words over agreements on illegal immigrants from China. Despite Tuesday's much-publicised claims by the New China News Agency, a letter dated October 23 shows that Hong Kong did not apologise or make any concession to the Chinese Government to defuse the crisis caused by their earlier refusal to take back illegal immigrants, in retaliation for the release of the dissident swimmer Yang Yang to the United States. However, the text of the letter itself raises questions. Its reference to the arrest of April 5th Action Group members as an apparent example of the Government's determination not to allow the territory to be used as a base for mainland subversion will be seen in the territory as either clumsy or sinister.

It will imply to some observers that the arrests of members of the group may have been motivated by more than normal police concern to maintain public order. Since the September 29 incident in Causeway Bay, which threatened to disrupt celebrations of China's National Day attended by the Governor, some doubts have been voiced about the seizure by police of television news video tapes of the scuffles between police and protesters. Juxtaposition of political policy and police action in the letter is an unfortunate blurring of the roles of the executive and judicial arms of government at this sensitive time.

The Hong Kong Government has long been conscious of the need to maintain cordial relations with China; two years ago, for example, it pushed through legislation to give retrospective legitimacy to its vetting of films, even

though political censorship is prohibited by the International Covenant on Civil and Political Rights, to which Hong Kong is an affiliate party.

The letter sent to the New China News Agency this week also recalled the Government's decision to refuse a request for a permanent site in Hong Kong for the erection of a replica of the Goddess of Democracy statue, which was the focal point of the student demonstrations in Tiananmen Square in May and June. Also, reference was made in the letter to the fact that the Double Ten Kuomintang celebration had passed off without fanfare earlier this month in the territory. Those who had earlier complained of police removal of Nationalist flags from street railings, ostensibly because the pennants obstructed traffic, may now be further aggrieved by the context in which the letter places this incident.

These reactions to concern from China, in addition to the pledge that "the Hong Kong Government will continue to have a prudent regard for the special circumstances of Hong Kong and the interests and concerns of the Chinese Government", may have been construed by the New China News Agency as an apology and a special undertaking, because of the implied political motivation.

At this juncture, every nuance of the Hong Kong Government's attitudes and actions in regard to China is being scrutinised, often with considerable cynicism. The Government has to emphasise that, regardless of Chinese anger over the actions of its critics in the territory, the laws of Hong Kong take precedence over political concerns. Equally, the New China News Agency must recognise that it cannot stoke up the fires of controversy one day, and then try to put out the flames with a spoonful of water the next day. The public remembers the shouts of recrimination rather than the soft words of reconciliation.

Dispute Between Liberals, Moderates Remains Unresolved

HK2610032189 Hong Kong HONGKONG STANDARD in English 26 Oct 89 p 5

[Text] Liberals declared last night that they did not share Mr Martin Lee Chuming and Mr Szeto Wah's criticism of the moderates.

The statement was made at a round-table meeting of liberals, moderates and businessmen.

It appeared to be an attempt to resolve a dispute between the moderates and liberals.

The row was sparked last Sunday when liberal leaders Mr Lee and Mr Szeto criticised the seven-group moderates as "yes-men" and hinted that they had bowed to pressure from Beijing.

"Criticism made by Mr Lee and Mr Szeto on the moderates during the compromise exercise represented their personal views only," a spokesman for the liberals, Mr Yeung Sum, said after the meeting.

"It is because the liberal's negotiation team never formally discussed how we looked at the moderates," Mr Yeung said.

Moderate spokesman, Mr Michael Luk Yan-lung, said: "As this (Lee and Szeto's comments) is not a common stance by liberals, we'll continue negotiations in a frank and friendly manner."

The dispute started last week when reports said moderates proposed slowing down the pace of democratic reform by supporting the 4-4-2 compromise model.

Mr Luk said last night that the group had never changed its mind and had only taken the 4-4-2 model as a basis for discussion.

He denied the moderates were bowing to pressure.

The Group of 89 spokesman, Mr Vincent Lo Hong-shui, said the compromise exercise could continue after the Basic law consultations ended next Tuesday.

Both Mr Lee and Mr Szeto were absent from last night's meeting.

Mr Lo said earlier that the compromise exercise was vulnerable because it included the liberals, most of whom backed the Alliance in Support of the Patriotic Democratic Movement in China.

When attending the Legislative Council weekly session, Mr Lee and Mr Szeto said the acceptability of political models should be judged by the blueprints and not their supporters.

They doubted if the Chinese authorities really wanted to see consensus emerge.

"If the 4-4-2 model is not acceptable to the Chinese government because of our participation, will the conflict be over if we show our support for the two-house system?" asked Mr Lee.

"There will not be a consensus without the participation of the liberals if it is to be a true consensus," Mr Lee said.

Mr Lee was not optimistic about a compromise between the three major political camps because he said the moderates backed away when the liberals conceded ground.

Another legislator and local Basic Law drafter, Mr Tam Yiu-chung, said the pro-Beijing Federation of Trade Unions would finalise its recommendations in an executive committee meeting tomorrow.

Although unions had expressed support for the two-house model, the final decision rested with the committee, he said.

Government Asked To Scrap Vietnam Asylum Policy

HK2610053789 Hong Kong SOUTH CHINA MORNING POST in English 26 Oct 89 p 6

[Text] Petitioners yesterday called on the Governor, Sir David Wilson, and legislators to review Hong Kong's port of first asylum for Vietnamese boat people.

They said they were disappointed with the outcome of the recent international refugee conference in Geneva and urged lawmakers to hold another debate on the issue.

The petitioners from the Joint Districts Concern Group on Vietnamese Refugees and Boat People handed their submissions to legislators at yesterday's meeting.

"We are especially disappointed now that the Vietnamese Government has backed down from its earlier promise and simply rejected to look into the possibility of mandatory repatriation," said representative Johnston Wong Hong-chung, a Shatin District Board member.

The group claimed Hanoi was under pressure from the United States not to accept mandatory repatriation.

The petitioners said Hong Kong should scrap the port of first asylum policy and introduce new measures to deal with the expected influx of boat people next spring.

The group will hold a forum on the issue on Sunday at Victoria Park and seek a meeting with the American Consulate in Hong Kong to air their views on forced repatriation.

While the Legco [Legislative Council] in-house meeting will decide tomorrow whether to hold a debate on the boat people issue, lawmakers yesterday grilled officials over the progress of implementing mandatory repatriation.

Secretary for Security Geoffrey Barnes told members it was important for Hong Kong to have the deterrent value of repatriation of Vietnamese non-refugees in place before spring.

"I hope members will understand that I cannot be more specific at this stage, but I can say that the early implementation of repatriation remains our firm objective," he said in reply to a question from Mr Hui Yin-fat.

Mr Barnes added that the Government believed the Comprehensive Plan of Action (CPA) approved by the international community in June, offered the best chance of achieving humane and durable solutions to the Vietnamese boat people problem.

The most important elements of the CPA for Hong Kong include first asylum, screening, resettlement of refugees, and repatriation of non-refugees.

"The first three elements are now firmly in place, but progress on the fourth has been disappointing," he said.

Mr Barnes reminded lawmakers that scrapping the first asylum policy would be in breach of the CPA.

To be effective, the CPA must become in practice what it was meant to be, a plan of action which was implemented fairly, firmly and fully, he said.

The Government would therefore continue with its efforts to establish an early repatriation program for non-refugees, as well as fully supporting voluntary returns, he added.

"We see these two modes of return to Vietnam as being complementary and perfectly capable of continuing alongside each other in future.

"There are, therefore, no plans at this stage to consider the adoption of other measures or to review the policy of granting first asylum to Vietnamese boat people," he said.

The Government had stated on a number of occasions that it hoped to be able to start repatriating non-refugees as soon as arrangements were concluded, Mr Barnes said.

"These depend on progress in our bilateral and multilateral discussions."

Mr Barnes said the Government was aware of the criticisms in the U.S. and Britain about Hong Kong's handling of the boat people problem, but dismissed them as ill-informed and irrational.

He denied that pressure from the U.S. Government was the main obstacle to introducing mandatory repatriation and that Hong Kong would face American economic sanctions if it introduced the measure.

In reply to another question from Mr Ngai Shiu-kit, Mr Barnes said children born to Vietnamese parents with refugee status were allowed to remain in Hong Kong as refugees pending resettlement with their parents.

Children born to parents who had been screened out as non-refugees did not have refugee status.

Businessman Calls for Abolishing Democracy Alliance

HK2610052589 Hong Kong SOUTH CHINA MORNING POST in English 26 Oct 89 p 1

[By Chris Yeung]

[Text] A leading businessman, Mr Vincent Lo Hong-sui has called for the disbanding of the Hong Kong Alliance in Support of the Patriotic Democratic Movement in China, as the first step towards bridging the deepening rift between Hong Kong and China.

Mr Lo, leader of the influential Group of 89 businessmen and professionals in the Basic Law Consultative Committee, also urged Beijing not to impose tightened constraints over post-1997 Hong Kong in the mini-constitution, which he warns might further erode confidence and increase emigration.

On the British front, he maintained the granting of a safety exit would help solve the brain drain but insists pushing for an over-rapid democratisation program was not the answer to the confidence jitters.

Considered one of the most influential businessmen in the territory, Mr Lo was delivering a package of measures that should be taken by Hong Kong, Britain and China to normalise the present links across the border at a lunch meeting of the Zonta Club of Hong Kong yesterday.

His call for the disintegration of the Alliance, however, was immediately rejected by its chairman, Mr Szeto Wah and vice-chairman, Mr Martin Lee Chuming who insisted they were not subversive.

Mr Szeto said last night: "There is now freedom of speech in Hong Kong. A disbandment of the Alliance now will have an extremely bad influence. We've never considered disbanding the group."

Mr Lee said: "There has been no evidence so far that indicates we are subversive," adding a disbandment would have bad implications after 1997.

In his speech Mr Lo said: "This (June 4) event shattered all expectations and dreams of Hong Kong people. Instead of hopes, there were grief and sorrow. Instead of close co-operation with China, there appeared to be confrontation."

"Relations between China, Britain and Hong Kong became strained leading to open bickering over some secondary issues. Hong Kong people are once again lost about their future.

"We should take positive steps to cultivate mutual understanding with China now. A good relationship can exist and continue only when two sides accept and respect each other.

"One way to demonstrate our sincerity and commitment to the 'one country, two systems' principle is to remove all obstacles in building mutual trust between China and Hong Kong."

Mr Lo claimed one major obstacle was the 229-group Hong Kong Alliance in Support of the Patriotic Democratic Movement in China which was branded by China as subversive.

"As long as the Alliance is active, Beijing will have the excuse and reason to believe that Hong Kong might develop into an anti-communist base. Whether you agree or not makes no difference.

"For the sake of the overall interest of the community, perhaps it is an appropriate time for the organisers of the Alliance to consider dissolving their organisation voluntarily and donate the \$20 million raised to charities," he said.

Mr Lo claimed many from the business circle shared his views, but he stressed he never intended to put pressure on and embarrass the Alliance organisers.

He insisted that the existence of the Alliance was no longer justifiable given the student movement in China had already been suppressed by the authorities.

Mr Lo said: "Neither the Government nor the people of Hong Kong can force them to disband. It's up to the Alliance."

"The views of Hong Kong people are significant. People I have met shared my view that we should be more practical now. The Alliance has become a stumbling block for the rebuilding of the normal ties between Hong Kong and China."

"It's an eyesore to Beijing. That's undeniable," he said.

"If we do not take the first step, Beijing will continue to be prejudiced against us. Who's going to solve the problem in future? It's a matter facing the 5.7 million people.

"Time is ripe for us to be more practical. It's not the time to save face. The Alliance leaders have said they would keep a lower profile and organise fewer activities. Why not disband it altogether?

"I have raised the issue with them. They said there were difficulties. I fully appreciate the fact that the Alliance leaders have worked very hard in the past. I hope they will carefully consider my suggestion," he said.

Mr Lo rejected the suggestion that the disbandment of the Alliance would be made at the price of freedom of speech.

"I don't think the two are related. If we can convince Beijing the activities of the Alliance are not counter-revolutionary, that's fine. But that's not the case.

"Now that they have already concluded it is counter-revolutionary, what can we do? Continue to confront them? Or fight back?

"There has been no formal contacts between both sides now. That's very serious. How many Hong Kong people now are able to talk directly to Beijing leaders? If they just listen to the views of certain people, what will Hong Kong be?" he asked.

Mr Lo said the business and professional lobby has been under severe attack because they joined talks with the liberals on a compromise post-1997 political model.

"If the problem drags on, we might have to face a Basic Law that we are not willing to accept and support," he said, while stopping short of naming the unpopular bicameral model.

Foreign Ministry Rejects 'Interference' in Hong Kong Question

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1242 GMT 25 Oct 89

["China Opposes Attempt To 'Internationalize' Question of Hong Kong"—XINHUA headline]

[Text] Beijing, October 25 (XINHUA)—Chinese Foreign Ministry spokesman said here today that the Chinese Government opposes any attempt to "internationalize" the question of Hong Kong.

The spokesman said this when asked to comment on the recent remarks and actions by leaders of the British Government and some of its officials in an attempt to "internationalize" the question of Hong Kong.

The spokesman said that he had already elaborated the basic position of the Chinese Government in answering a question from correspondents on October 18.

He pointed out that Hong Kong has been part of the Chinese territory since ancient times. There are clear stipulations in the Sino-British Joint Declaration on the Question of Hong Kong that the British Government will restore Hong Kong to the People's Republic of China with effect from 1997 and the Government of the People's Republic of China will simultaneously resume the exercise of sovereignty over Hong Kong.

In the present transitional period, the spokesman said, the implementation of the Sino-British Joint Declaration on the Question of Hong Kong is entirely a matter between the Government of China and the Government of the United Kingdom, and no other country or international organization has the right to interfere in it.

Any attempt to "internationalize" the question of Hong Kong runs counter to the stipulations and spirit of the Sino-British joint declaration and violates the norms of international law, he said, adding that naturally, this is absolutely unacceptable to the Chinese Government.

He said that in order to maintain prosperity and stability and ensure a smooth transfer of government in Hong Kong, the British side must demonstrate its sincerity by strictly acting in accordance with the Sino-British joint declaration. It absolutely won't work for the British side to use such tactics as playing the cards of "confidence", "popular will" or even "internationalization" to reintroduce various unreasonable demands that were rejected in the course of Sino-British negotiations on the question of Hong Kong.